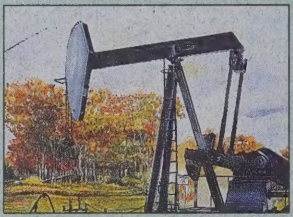
IMPERIAL OIL LIMITED

1990 Annual Report to Shareholders

AR37

Company profile

Imperial Oil Limited, one of Canada's largest corporations, has been a leading member of the country's petroleum industry for more than a century. It is the largest producer of crude oil and third largest producer of natural gas. Imperial is also the largest refiner and marketer of petroleum products — sold primarily under the Esso brand — with a coast-to-coast supply network. As well, the company is a major supplier of petrochemicals and fertilizers.



Contents

Cover

Every year Imperial retailers, associates and employees present more than 75,000 Medals of Achievement to young Canadian hockey players.

HIGHLIGHTS

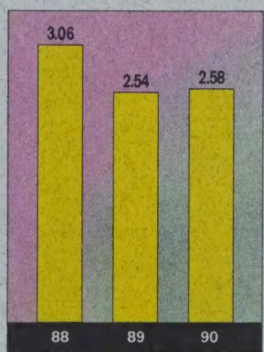
The company made excellent progress on its three priorities for 1990. The merger with Texaco Canada was essentially completed. Debt was reduced significantly, improving the company's financial strength. Major initiatives were launched to reduce costs and improve productivity.

FINANCIAL HIGHLIGHTS

	1990	1989	1988
Net earnings (millions of dollars)	**493**	456	501
Cash provided from operating activities	**692**	830	982
Capital and exploration expenditures	**668**	6199	1376
Return on average capital employed (percent)	**5.0**	5.2	6.3
Return on average shareholders' equity	**6.7**	7.1	8.9
Total debt as a percentage of capital	**29.3**	37.0	15.9
Per-share information (dollars)			
Net earnings	**2.58**	2.54	3.06
Cash provided from operating activities	**3.63**	4.63	6.00
Dividends	**1.80**	1.80	1.80

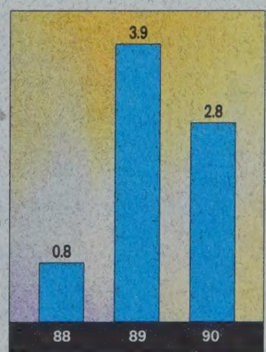
In response to the preferences of readers, this report expresses all oil and gas volumes in barrels and cubic feet. Petroleum-product volumes are expressed in litres.

EARNINGS PER SHARE
(dollars)



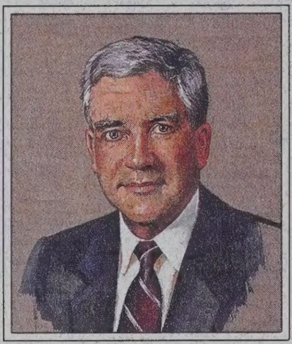
Higher crude-oil prices improved earnings.

DEBT
(billions of dollars)



Debt was reduced substantially, mainly through the sale of more than $1 billion in assets.

THE COMPANY'S DIRECTORS



D.D. Baldwin
President and chief executive officer
Esso Resources Canada Limited
Calgary, Alberta
Director since 1988

R.A. Brenneman
Senior vice-president and chief financial officer
Imperial Oil Limited
Director since 1989

J.B. Buchanan
Vice-chairman
British Columbia Packers Limited
Vancouver, British Columbia
Director since 1979

R.J. Currie
President
Loblaw Companies Limited
Toronto, Ontario
Director since 1987

P. Des Marais II
President and chief executive officer
UniMédia (1988) Inc.
Montreal, Quebec
Director since 1977

A.R. Haynes
Chairman and chief executive officer
Imperial Oil Limited
Director from 1974–1978 and since 1982

W.R.K. Innes
President
Esso Petroleum Canada and vice-president
Imperial Oil Limited
Director since 1988

M. Kovitz
President
Murko Investments Ltd.
Calgary, Alberta
Director since 1977

W. A. Macdonald
Partner
McMillan, Binch
Toronto, Ontario
Director since 1977

R.B. Peterson
President and chief operating officer
Imperial Oil Limited
Director since 1984

NEW COMMITTEE FORMED TO OVERSEE ENVIRONMENT, HEALTH AND SAFETY

The long-term strategic governance of the corporation in the interest of all of Imperial's shareholders is the primary responsibility of the company's 10 directors. The relatively small number of board members facilitates a close working partnership and provides an effective forum for the resolution of a broad range of issues of concern to the company.

Imperial elected its first three nonemployee directors in 1977, and each of these directors is still serving. The five nonemployee directors are chosen not only for their business and professional skills but for their regional diversity, which the company regards as essential for a corporation doing business from coast to coast in Canada.

The importance that Imperial attaches to the well-being of the communities in which it operates is reflected in the structure of some of its committees. Its contributions committee meets regularly to oversee the company's contributions program, and in 1990 a new committee was established to review the company's performance in its care for the environment and the safety of its operations.

The long-term commitment of Imperial's directors to the corporation and its many stakeholders is reflected in the fact that, over the past 10 years, attendance at all meetings has averaged more than 92 percent.

COMMITTEES OF DIRECTORS

AUDIT COMMITTEE

J.B. Buchanan, chair

The committee, composed of the five nonemployee directors and Mr. Peterson, reviews the company's annual and quarterly financial statements, accounting practices and business and financial controls. The internal audit program and findings are reviewed with the committee. It also recommends to the directors the external auditors to be appointed by the shareholders at each annual meeting, reviews their audit work plan and approves their fees. The shareholders' auditors, Price Waterhouse, attend and participate in all meetings. The committee met eight times in 1990.

CONTRIBUTIONS COMMITTEE

M. Kovitz, chair

The committee, composed of the five nonemployee directors and Mr. Brenneman, examines policies and programs related to the contributions program and recommends an annual budget for adoption by the directors. The company's contributions program is aimed at enhancing the quality of Canadian life through support for education, health, welfare, community services, culture and sport. The committee met five times in 1990.

ENVIRONMENT, HEALTH AND SAFETY COMMITTEE

W.A. Macdonald, chair

The committee, composed of the five nonemployee directors and Mr. Haynes, reviews policies and programs on corporate environmental, health and safety matters. The committee also oversees the company's performance in this area and monitors compliance with regulatory and corporate standards in the company's operations. It also monitors trends and reviews current and emerging policy in these areas. The committee met three times in 1990.

EXECUTIVE RESOURCES COMMITTEE

P. Des Marais II, chair

The committee, composed of the five nonemployee directors and Mr. Haynes, is responsible for decisions on the compensation of senior management above the level of vice-president and for reviewing the executive development system, including specific succession plans for senior management positions. It also reviews corporate policy on compensation. The committee met four times in 1990.

NOMINATIONS COMMITTEE

R.J. Currie, chair

The committee, composed of the five nonemployee directors and Mr. Haynes, recommends to the directors the slate of director candidates to be proposed for election by the shareholders at the annual meeting. It also recommends criteria for the selection and tenure of directors, specific director candidates and the successor to the chief executive officer when vacancies are expected. The committee met once in 1990.

A YEAR OF ACHIEVEMENT: MERGER BEHIND US, KEY GOALS REACHED

Arden R. Haynes
Chairman and chief executive officer

For Imperial, 1990 was a year of significant accomplishment amid turmoil in our business environment and transition within our own organization. Events in the Persian Gulf following the invasion of Kuwait by Iraq triggered extreme price swings in the markets for crude oil and petroleum products while political and economic uncertainties at home further weakened the general business climate. Higher crude-oil prices improved earnings in the upstream sector of our business, but price volatility — combined with the downturn in the economy — put pressure on the downstream business. The situation demonstrated again how critical it is to maintain flexibility to meet ever-changing internal and external conditions.

Indeed, our demonstrated ability to respond to change is one of our strengths. In 1990 it allowed us to achieve three very important short-term objectives we had set for ourselves. We completed our merger with Texaco Canada; we substantially reduced debt associated with the acquisition; and we took steps to improve significantly the productivity of the organization, all the while maintaining the quality of our operations and adding to shareholder value.

Merging the Texaco Canada organization smoothly into all segments of our business required extensive effort from all employees. The time and effort

have been well spent; the organizations are now together and the merger costs are mostly behind us.

In the upstream, our oil and gas production has increased significantly since the merger. In the downstream, the successful integration of assets and operations was particularly challenging. We were obliged to dispose of a number of downstream assets in a highly competitive market, while at the same time we rebranded about fourteen hundred Texaco Canada service stations. Throughout it all, despite the complexities and time involved in merger work, we were able to manage our base businesses well.

Even with the overriding importance of the merger, we continued our involvement in many other important areas of concern to your company. Unquestionably, the uncertain business climate made it more challenging to meet the expectations of our numerous and diverse stakeholders — shareholders, employees, customers, sales associates, suppliers, the communities in which we operate, governments and the public at large. However, we took every opportunity to address their interests.

For example, the visibility and volatility of world oil prices in the second part of the year focused the attention of both governments and consumers on gasoline prices. We devoted considerable effort and time to communicating with governments, media and the public, helping dispel any misconceptions by providing accurate information and explaining how we were trying to recover our increasing costs in a fair and equitable way. Most importantly, we continued to stress the role of fair, competitive markets as the best guarantors of the interests of consumers and the industry alike.

IN 1990 OUR ABILITY TO RESPOND TO CHANGE ALLOWED US TO ACHIEVE THREE SHORT-TERM OBJECTIVES. WE COMPLETED OUR MERGER WITH TEXACO CANADA, WE SUBSTANTIALLY REDUCED DEBT AND WE TOOK STEPS TO IMPROVE PRODUCTIVITY.

A major issue of public concern remains the environment. The environment, health and safety committee of the board of directors, established a year ago, has been actively reviewing related policies and practices in the company. The work of this committee, and the elevation of environmental responsibility to a vice-presidential level within the corporation, will help ensure that we operate within the best strategic framework to enhance our already excellent environmental record. An important cornerstone is our policy to adopt standards that exceed legal requirements whenever benefits to society justify the costs and our ability to compete is not weakened.

In addition, all of our operations underwent in-depth "operations excellence" reviews in 1990, in order to ensure that standards of safety and reliability are met and that health, safety and environmental considerations are central to the practices and decisions of our operating personnel.

We also introduced products during the year that are more environmentally friendly — reduced-emissions gasoline and six new Esso re-refined engine and hydraulic oils. The new gasoline, first made available last summer in the Vancouver area, aims at reducing urban smog. The new lubricants contain

more than 50 percent re-refined oils while meeting our strictest performance standards. As well, an increasing proportion of our research budget is being spent to make our operations and products more environmentally friendly.

We have been active participants in the public policy process on environmental issues, sharing our perspective and technical expertise with legislators and the Canadian public. We are continuing work on a series of discussion papers on key environmental issues, including global warming, air quality and energy efficiency. We are also pursuing a wide range of environmental research projects.

> A CORNERSTONE OF OUR ENVIRONMENTAL POLICY IS TO ADOPT STANDARDS THAT EXCEED LEGAL REQUIREMENTS WHENEVER BENEFITS TO SOCIETY JUSTIFY THE COSTS AND OUR ABILITY TO COMPETE IS NOT WEAKENED.

We continued to support a broad range of worthwhile causes in the areas of education, health, welfare, community service, culture and sport, with contributions amounting in 1990 to more than $10 million. We introduced our Volunteer Involvement Program, which provides funds for local community projects sponsored by current and retired Imperial employees. This program added a new dimension of interest and diversity to our contributions program, while confirming our view that corporate giving is sound business as well as one way to give something back to the community.

Looking ahead, we see 1991 as a year to consolidate the gains made in 1990, particularly in the areas of further debt reduction and increased productivity. As well, we will continue to focus on the three strategies that underpin our business success.

The first of these is to maintain our financial flexibility so that we can take advantage of opportunities as they arise and weather the uncertainties and shocks of what continues to be a dynamic and challenging business. Events of the last year only emphasize how changeable and fast-moving our business can be and how well-served Imperial has been by this strategy.

Our second strategy is to maximize the value of our base businesses through improved efficiency and productivity. A key element of that strategy is the continuous improvement of all our operations. This includes ensuring that our efforts are focused on essential work that meets customer needs and promotes shareholder interests and value. This will continue to occupy much of the company's attention in 1991. We have initiated plans to decrease our workforce by offering an attractive set of incentive programs to assist employees in retiring early or in changing careers. We expect about 20 percent of our employees to participate in these programs.

Another key element of this strategy is honing our asset mix to concentrate on a core of quality strategic assets that provide shareholder value. In the upstream, selective property divestments are improving efficiency and returns through the identification and sale of non-core oil and gas producing properties. In the downstream a continuing divestment program will concentrate on improving asset quality

and productivity, and on eliminating duplicate facilities.

Our third strategy is to maintain an inventory of investment opportunities for further growth at a managed pace. Phasing in our Cold Lake operations over the last few years is an example of how our flexible approach to hydrocarbon development is successful and of how we have found ways to grow in an uncertain climate for our industry. We are now in a position to consider starting up a further two phases as markets develop in the future. We also see further opportunities to increase natural-gas production from our large reserves acquired in the western Canadian basin, as North American markets strengthen and transportation facilities are expanded.

Looking further down the road, we continue to maintain a suite of longer-term opportunities. Some of these projects — such as oil-sands development in western Canada and natural-gas production from the Beaufort Sea region of the western Arctic — are dependent upon sustained increases in the prices of crude oil or natural gas. In our chemical business, the free-trade agreement between Canada and the United States puts us in an ideal situation to supply a growing part of the American petrochemical market that is merely a day's drive away from our operations in Sarnia, Ontario.

I am confident there will continue to be economic long-range opportunities for Imperial to pursue. We have a larger and stronger base to build on as the key outcome of the acquisition of Texaco Canada. We are positioned for growth — with an excellent portfolio of opportunities to pursue — and we intend to take full advantage of it, always adhering to our desire to balance short-term profitability with longer-term growth.

IN 1991 WE WILL FOCUS ON STRATEGIES THAT UNDERPIN OUR SUCCESS: MAINTAIN OUR FINANCIAL FLEXIBILITY, MAXIMIZE THE VALUES OF OUR BASE BUSINESSES, AND MAINTAIN AN INVENTORY OF INVESTMENT OPPORTUNITIES.

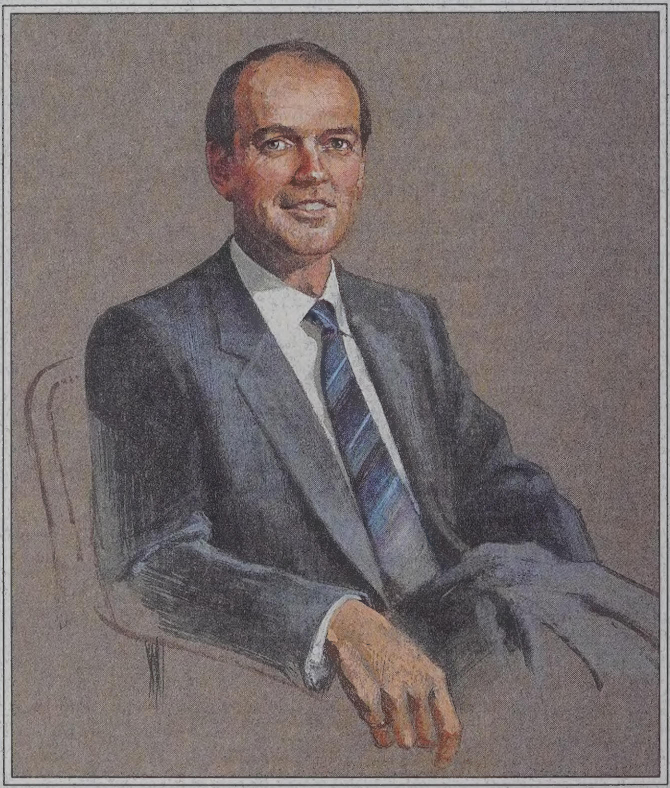
Obviously our company's long-term future cannot be completely divorced from the economic health of Canada and the world as a whole, and it would be naive to expect the current problems we are encountering in this country to be resolved overnight. It is my hope that the self-examination Canadians are now undergoing will not blind us to the domestic and international opportunities we have as a nation to achieve economic and cultural prosperity; rather that we will be able to see our potential and have the confidence to claim our future.

In closing, I would like to take this opportunity to mention the outstanding commitment and contribution of Imperial employees and to thank them on your behalf for their tremendous efforts throughout a challenging year.

Arden R. Haynes

February 21, 1991

FINANCIAL RESTRUCTURING FIRMLY ON TRACK AS DEBT REDUCED



Ronald A. Brenneman
Senior vice-president and chief financial officer

Imperial's top financial priority since the acquisition of Texaco Canada in early 1989 has been to reduce the $5 billion of debt incurred to finance the purchase. In 1989 total corporate debt was reduced from $5.8 billion to $3.9 billion, mainly through the issue of additional shares.

In 1990, substantial progress was again made in paying down debt. During the year it was reduced to $2.8 billion, essentially on track with the company's financial restructuring program.

As had been planned, in 1990 most of the cash used to pay down debt came from the sale of assets, which generated more than $1 billion. Of this amount, $500 million came from the sale of Imperial's interest in Interhome Energy Inc. A further $350 million was realized from the sale of non-core crude-oil and natural-gas properties. Those asset sales satisfied the divestment commitments made to Investment Canada by Imperial at the time of the purchase of Texaco Canada. The sale of downstream assets raised $150 million. A further $120 million in equity was raised through the dividend reinvestment program.

The $1.1 billion in debt reduction achieved in 1990 made a material contribution to the company's financial fitness, bringing total debt as

a percentage of capital down from 37 percent at the end of 1989 to 29 percent at the end of 1990.

Interest costs were substantially lower in 1990 than in 1989, largely due to debt reduction. A combination of lower interest rates and restructuring of the remaining debt had the effect of lowering the company's effective interest rate from more than 10.5 percent in 1989 to less than nine percent by the end of 1990.

INTEREST COSTS WERE REDUCED

As a result, by the end of 1990, monthly interest expense was less than $22 million, 60 percent lower than it was immediately following the acquisition of Texaco Canada. Interest coverage improved to 3.4 times earnings in 1990, well on its way to a target of five times or better.

Looking ahead, much of Imperial's emphasis during 1991 will be on further consolidation, on continuing to reshape the company to seek new opportunities and on restoring the company's financial ratios to traditional levels.

DEBT REDUCTION REMAINS A PRIORITY

Paying down the debt will remain a priority. It is expected that a portion of the cash for that purpose will come from the sale of additional assets. Although the company has made substantial progress in asset divestment, its rationalization plans call for the further sale of a number of fragmented upstream interests and nonstrategic properties. It is also expected that some internal cash flow will be directed to debt reduction during 1991.

CAPITAL INVESTMENT TO CLIMB

At the same time, the company's steadily improving financial position will allow it increasing flexibility in its investment decisions. Capital and exploration expenditures in 1991 are expected to exceed $800 million, up from $668 million in 1990 (1989 — $6.2 billion).

The petroleum industry is one that not only offers attractive investment opportunities but one that can impose significant cash requirements. This was clearly demonstrated in 1990, when higher crude-oil prices increased requirements for working capital to finance petroleum-product inventories by as much as $700 million. Even at year-end 1990, the value of inventories remained $350 million higher than a year earlier.

As this inventory is moved into the marketplace and as crude-oil prices drop, this additional value is exposed to competition from lower-priced U.S. exports. Prices of these exports can change more quickly because of different tax conventions allowed in that country.

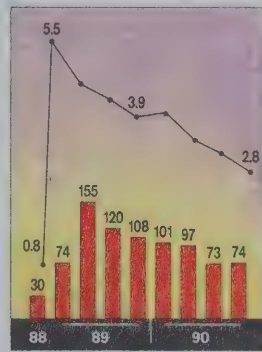
Recognizing that environment for our industry, Imperial is targeting a financial structure that will comprise

FINANCIAL PERCENTAGES AND RATIOS*

	1990	*1989*	*1988*
Total debt as a percentage of capital	29.3	37.0	15.9
Interest-coverage	3.4	2.5	8.8
Current ratio	1.3	1.4	2.0

* For definitions of financial percentages and ratios refer to the glossary of terms on page 33.

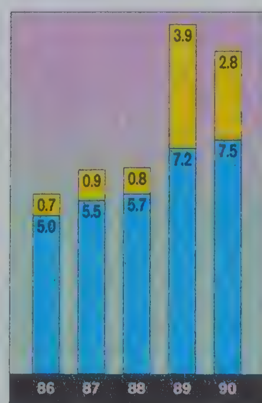
DEBT AND INTEREST EXPENSE BY QUARTER



Debt (billions of dollars)
Total interest (millions of dollars)

Lower debt level significantly reduced interest expenses.

DEBT AND SHAREHOLDERS' EQUITY
(billions of dollars)



Debt
Shareholders' Equity

The company is well on the way to realigning its financial structure.

EARNINGS BY SEGMENT

millions of dollars	*1990*	*1989*	*1988*	*1987*	*1986*
Natural resources	**448**	339	151	432	196
Petroleum products	**222**	257	210	188	174
Chemicals	**28**	80	104	34	17
Corporate and other	**(205)**	(220)	36	92	(102)
Net earnings	**493**	456	501	746	285

$830 million in 1989 (1988 — $982 million). (See chart page 10.)

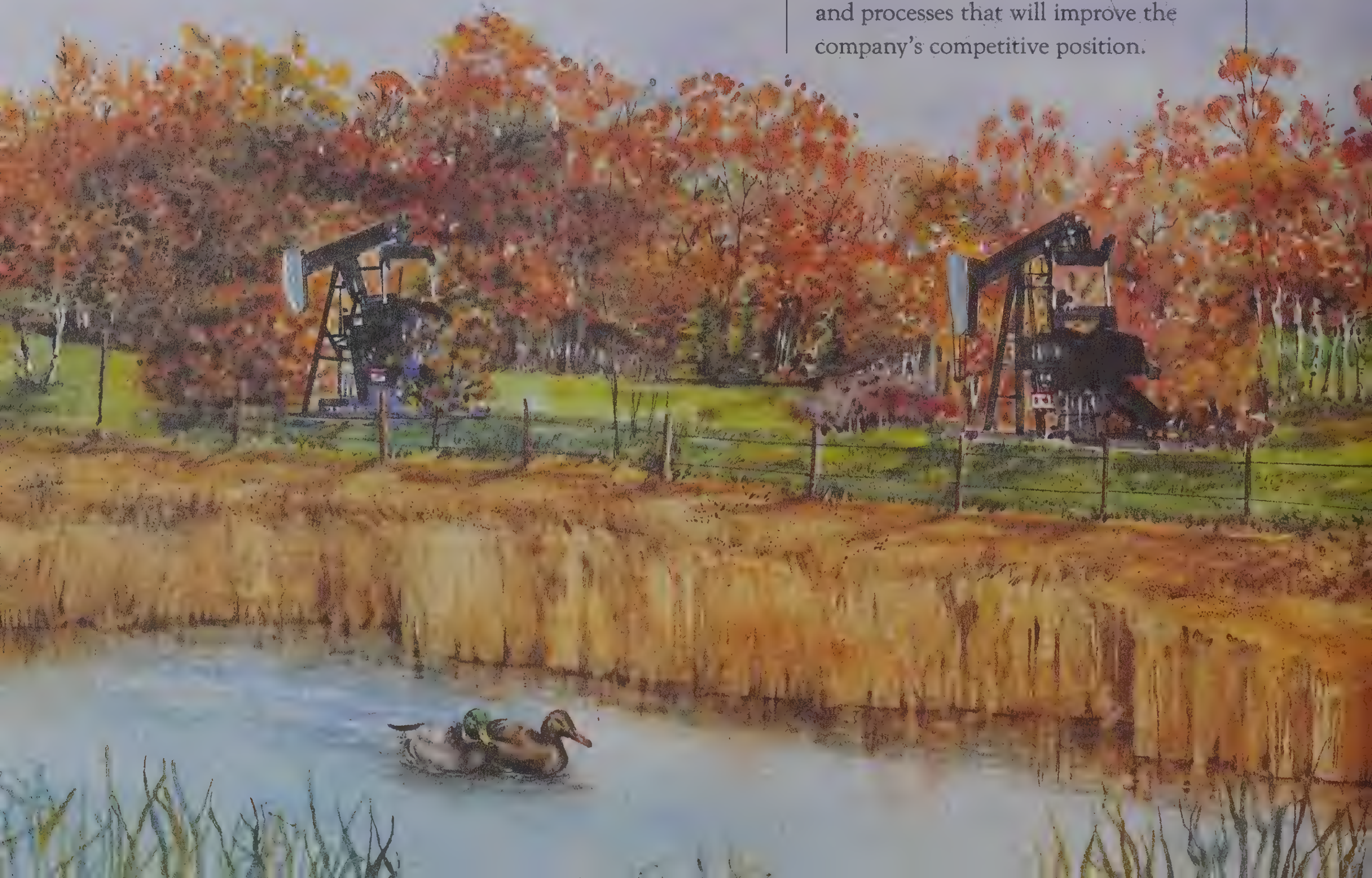
Imperial continues to emphasize reliability, safety and environmental protection in all aspects of its business.

For example, a thorough review of all the company's major operating facilities during the year has resulted in detailed plans to further enhance the integrity of operations and minimize accident risks. The implementation of those plans is expected to cost about $30 million in 1991.

In 1990, the safety record of employees was poorer than the preceding year's. It was the first year since 1980 that the safety record had not improved. We are determined to renew the focus on safety throughout the organization.

In environmental protection, significant progress continued to be made in minimizing air and water emissions from the company's operations. About $70 million was spent on facilities and equipment to protect the environment during the year.

The company spent $95 million on research and development in Canada in 1990, compared with $82 million the previous year. The focus of this effort is to develop new products and processes that will improve the company's competitive position.

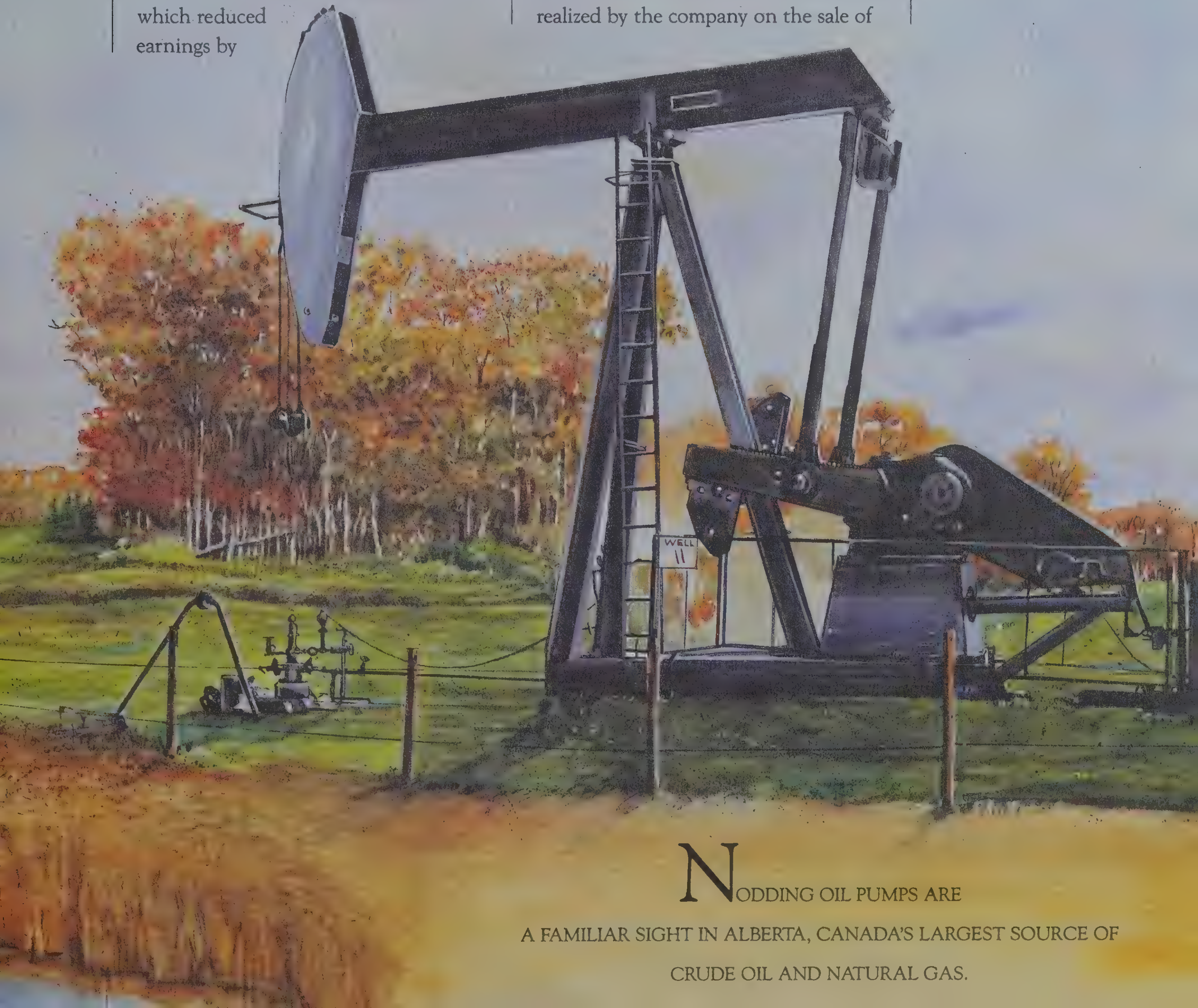


HIGHER OIL PRICES BOOST RESOURCE EARNINGS

The company's earnings from natural resources were $448 million in 1990, compared with $339 million the previous year (1988—$151 million). Those results include the net after-tax effect of unusual gains and losses, which reduced earnings by $32 million, compared with a gain of $33 million in 1989 (1988—nil).

Revenues increased to $3.0 billion, from $2.6 billion in 1989 (1988—$1.9 billion).

Higher oil prices were the reason for the improvement. The average price realized by the company on the sale of



NODDING OIL PUMPS ARE A FAMILIAR SIGHT IN ALBERTA, CANADA'S LARGEST SOURCE OF CRUDE OIL AND NATURAL GAS.

Earnings by segment

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NATURAL RESOURCES

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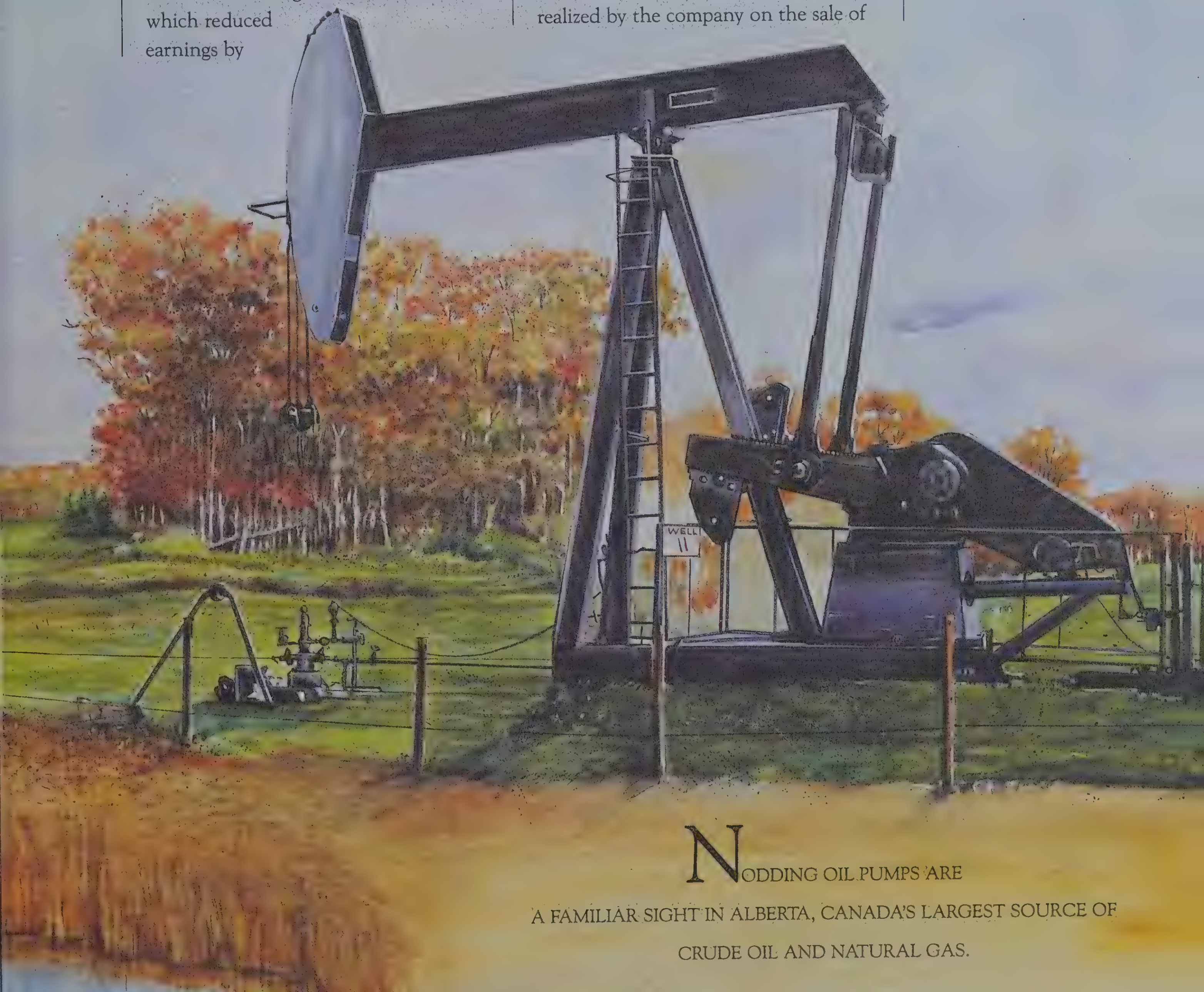


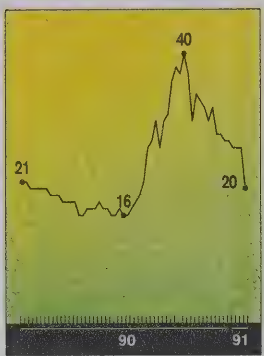
NODDING OIL PUMPS ARE A FAMILIAR SIGHT IN ALBERTA, CANADA'S LARGEST SOURCE OF CRUDE OIL AND NATURAL GAS.

NATURAL RESOURCES

FINANCIAL STATISTICS

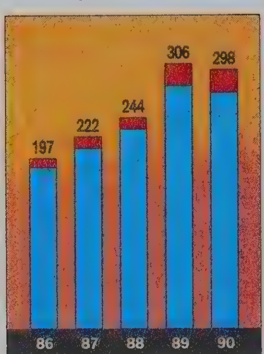
millions of dollars	1990	1989	1988	1987	1986
Earnings	**448**	339	151	432	196
Revenues	**2955**	2639	1881	2163	1662
Capital and exploration expenditures					
Exploration	**111**	314	122	66	81
Production	**232**	3570	680	978	187
Heavy oil	**51**	63	282	180	133
Coal and other	**5**	16	23	16	56
Total capital and exploration expenditures	**399**	3963	1107	1240	457
Capital employed at December 31	**7452**	8303	5136	4312	3522
Return on average capital employed (percent)	**5.7**	4.4	3.2	11.0	5.9

CRUDE-OIL PRICES
(Brent, $US a barrel)



Events in the Persian Gulf increased crude-oil prices and their volatility.

NET PRODUCTION
(thousands of barrels a day)



Crude oil and NGL production declined about 2.5 percent following a period of substantial growth.

crude oil and natural-gas liquids (NGLs) increased by more than 20 percent from the previous year.

International oil prices, which determine crude-oil prices in Canada, were extremely volatile over the course of the year. They began the year at $21 a barrel (all international oil prices are quoted in U.S. dollars), declining to less than $16 by midyear. With the invasion of Kuwait by Iraq in early August, crude-oil prices rose within days to more than $26, eventually reaching a peak of more than $40 in mid-October before declining to about $20 shortly after the end of the year.

EARNINGS HIGHLY LEVERAGED TO OIL PRICES

The company's upstream earnings are very sensitive to changes in crude-oil prices. As a rule of thumb, every (U.S.) $1-a-barrel increase in average crude-oil prices over a year improves the company's upstream earnings by about $70 million. (The other major variable is the exchange rate. For every one cent reduction in the Canadian dollar versus its U.S. counterpart, earnings increase by about $16 million.)

The company's total net production of crude oil NGLs declined to 298 thousand barrels a day in 1990, compared with 306 thousand barrels a day in 1989 (1988—244 thousand barrels a day). The main reasons for the reduction were declining productivity in conventional oil fields and the sale of oil-producing properties. The sales, which occurred at various times during the year, accounted for average production of 7.5 thousand barrels a day in 1990 (the full-year impact is about 15 thousand barrels a day).

Average daily net production of bitumen from Cold Lake was 85 thousand barrels a day, unchanged from the previous year (1988—88 thousand barrels a day). However, results improved significantly because of higher prices for Cold Lake production.

The Syncrude oil-sands plant operated at record levels in 1990, raising the company's share of production to 39 thousand barrels a day, up from 37 thousand barrels a day the previous year (1988—38 thousand barrels a day). Excellent performance at both the mine site and upgrader during the last nine months of the year overcame production losses resulting from a fire in late 1989. The company's 1990 earnings from Syncrude rose to $61 million, after deducting corporate overheads, representing an 8.4-percent return on average capital employed.

Net production of natural gas was 537 million cubic feet a day in 1990, essentially unchanged from the previous year (1988—316 million cubic

feet a day). The company uses about 25 percent of its gas production internally. In addition, it purchases gas from other producers and resells it. Total sales resulting from available production and purchases for resale were 611 million cubic feet before royalties in 1990, essentially unchanged from 1989 (1988—388 million cubic feet).

Despite continued weakness in markets for natural gas, the average sale price received by the company increased to $1.55 a thousand cubic feet. This reflected improved prices in our major gas contracts.

SUPPLY SURPLUS WEAKENS GAS MARKETS

The weakness in markets for natural gas over the past few years reflects a growing surplus of supply. That situation has been aggravated by a lack of pipeline capacity, which has prevented the industry from developing new customers and markets.

In that regard, Imperial believes that a decision by the National Energy Board in late 1990 that helps advance a major expansion in Canadian pipeline capacity is an important first step in developing new markets for gas.

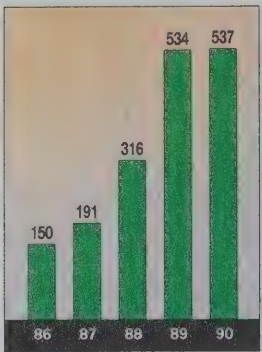
Expenses were up by about five percent in natural resources. One reason for the increase was higher overhead costs for administration and staffing, which resulted from adding a full year's expenses from the Texaco Canada organization. Another reason was higher costs of crude-oil production, caused by the growing maturity of the company's conventional oil fields.

Unusual items reduced earnings from natural resource operations by $32 million in 1990.

Sales of oil- and gas-producing properties (excluding the company's equity interest in Interhome Energy Inc., which is included under "corporate and other accounts")

DURING 1990, WORK WENT AHEAD ON THE RING BORDER NATURAL-GAS PROJECT, TWO MORE PHASES AT COLD LAKE AND ENGINEERING FOR THE OSLO OIL-SANDS MINING PROJECT.

NATURAL GAS
NET PRODUCTION
(millions of cubic feet a day)



Natural-gas production was maintained despite weak markets.

CRUDE OIL AND NGLs *thousands of barrels a day (1) (2)*

	1990		1989		1988		1987		1986	
	gross	net	gross	net	gross	net	gross	net	gross	net
Crude-oil production										
Conventional	**184**	**148**	192	159	121	105	117	98	113	95
Cold Lake	**88**	**85**	88	85	91	88	80	77	61	60
Syncrude	**39**	**39**	37	37	38	38	34	34	32	32
Total crude-oil production	**311**	**272**	317	281	250	231	231	209	206	187
NGLs	**31**	**26**	30	25	17	13	14	13	12	10
Total crude-oil and NGL production	**342**	**298**	347	306	267	244	245	222	218	197

NATURAL GAS *millions of cubic feet a day (1) (2)*

	1990		1989		1988		1987		1986	
Production (3)	**639**	**537**	643	534	399	316	246	191	190	150
Production available for sale (4)	**498**	**397**	498	389	272	189	233	177	180	141
Sales	**611**		607		388		198		173	

COAL *millions of tons annually*

	1990	1989	1988	1987	1986
Net production	**1.6**	1.7	1.1	0.9	1.0

AVERAGE SALES PRICES *dollars (5)*

	1990	1989	1988	1987	1986
Crude oil and NGLs *(a barrel)* (6)	**20.25**	16.65	12.64	18.01	14.45
Natural gas *(a thousand cubic feet)*	**1.55**	1.50	1.48	1.86	1.99

(1) Volumes a day are calculated by dividing total volumes (including Texaco Canada from February 24, 1989) for the year by the number of days in the year.

(2) Gross production is the company's share of production (excluding purchases) before deducting the shares of mineral owners or governments or both. Net production excludes those shares.

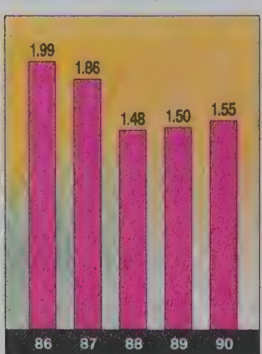
(3) Production of natural gas includes amounts used for internal consumption with the exception of amounts reinjected.

(4) Production available for sale excludes amounts used for internal consumption and amounts reinjected.

(5) These sales prices exclude all transportation costs.

(6) This is the weighted average of sales prices for conventional and Cold Lake crude oil, and NGLs.

NATURAL GAS
AVERAGE PRICES
(dollars a thousand cubic feet)



Imperial's average price for natural gas increased in 1990, reflecting improved prices in its major gas contracts.

yielded total proceeds of $350 million in 1990. The before-tax gain was $118 million ($116 million after-tax) compared with a before-tax gain in 1989 of $22 million ($33 million after-tax).

It was a difficult business environment for selling properties in 1990. During the first half of the year, oil prices were falling and there were more than $4 billion in other western Canadian petroleum properties on the market. Despite those poor market conditions, the company successfully disposed of assets at prices that it considered to be fair and reasonable.

MOST ARCTIC ASSETS NOW WRITTEN OFF

The gain from asset sales was more than offset by two write-downs of natural resource assets. The company took a $141 million before-tax write-off ($70 million after tax) of assets in the

Beaufort Sea — specifically the Amauligak and Issungnak discoveries.

The decision to write off the value of the properties was due to increased uncertainty about the timing and feasibility of oil production from offshore regions of the western Arctic.

The only Arctic asset remaining on the company's books following that write-off is the Taglu gas field.

The company also wrote down the value of the Byron Creek coal mine in southeastern British Columbia by $95 million before tax ($78 million after tax). The write-down follows a review of the company's coal strategy that resulted in putting the Byron Creek mine up for sale during the latter half of the year. No acceptable bids were received. The write-down reflects the company's expectations about the value of future production from the mine.

Net proved reserves of crude oil and NGLs declined to 1.7 billion barrels in 1990, the first reduction since 1982. During that period of continuous growth, proved oil reserves have more than doubled.

The main reason for the 1990 reduction was production of 109 million barrels of crude oil and NGLs. The company's yearly production of crude oil and NGLs has reached an

THE USE OF HORIZONTAL DRILLING AT COLD LAKE WAS PIONEERED BY SCIENTISTS AT THE COMPANY'S CALGARY RESEARCH CENTRE.

MERGER COMPLETION TOPS 1990 ACTIVITIES

Earnings from petroleum products, including an after-tax gain of $10 million from asset sales, were $222 million during 1990, compared with $257 million during 1989 (1988 — $210 million).

Revenues increased to $9.8 billion, from $8.4 billion in 1989 (1988 — $5.7 billion). The increase resulted from higher prices for petroleum products during the latter half of the year.

Those increased revenues were more than offset by higher operating costs. Raw material costs rose substantially because of higher crude-oil prices. Administrative expenses were higher, mainly because of the addition of a full year of Texaco Canada expenses (compared with 10 months in 1989). Extended refinery maintenance shutdowns during the second quarter of the year had a significant impact on supply costs. One-time merger costs for such things as changing signs, offices and business systems were also a factor.

In contrast to natural resources, business conditions in petroleum products generally deteriorated as the year progressed. The volume of products sold began to diminish, as the effects of higher prices and a deepening recession were increasingly felt. The substantial drop in crude-oil

prices late in the year placed increasing pressure on selling margins. That pressure is expected to continue into the first quarter of 1991, creating the risk of losses when higher-cost products now in inventory are sold.

GASOLINE SALES UP BUT TOTAL VOLUMES DECLINE

Total sales volumes, at 81.4 million litres a day, were down from 82.7 million litres a day the previous year (1988 — 56.6 million litres a day). Gasoline sales increased slightly. Sales of home heating oil, diesel and jet fuels declined by about six percent, mainly because of weakening demand and withdrawal from unprofitable business. Sales of heavy fuel oil rose by 13 percent, mainly because of increased sales to power utilities in Ontario and Quebec.

Total Canadian demand for petroleum products fell by about 2.5 percent in 1990 from the previous year.

One of the key tasks facing Esso Petroleum Canada during 1990 was completion of the merger with Texaco Canada. And, by year-end, this task was essentially completed. Following substantial delays, government approval for merging downstream operations was received in February 1990. That approval allowed the company to proceed with final merging of downstream operations, including the consolidation of more than seven thousand commercial accounts and the rebranding of fourteen hundred service stations into Esso retail outlets.

The company was also able to begin divesting assets according to agreements that had been made to gain approval for the merger. Buyers were found for almost all of the assets the company agreed to sell under the consent order issued by the Competition Tribunal. Texaco Canada's refining and marketing assets in Atlantic Canada, which represented about 1.8 million litres a day of sales, were sold in October. Most of the service stations west of Atlantic Canada that the company had agreed to divest, representing 0.8 million litres a day, were also disposed of by year-end. Negotiations were also under way for the few remaining divestments that were required.

THE FORM OF A BYGONE ERA COMBINES WITH MODERN FUNCTIONALITY IN THIS REPLICA OF A 1920's STYLE SERVICE STATION, DESIGNED TO FIT THE HISTORICAL FLAVOR OF OLD UNIONVILLE IN ONTARIO.

PETROLEUM PRODUCTS

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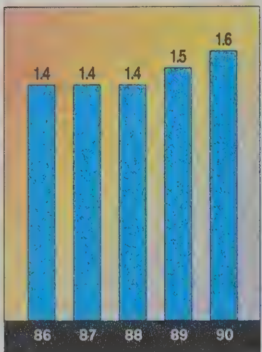
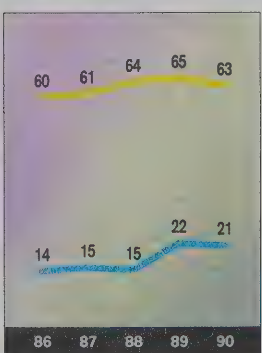
THROUGHPUT PER BRANDED SERVICE STATION
(millions of litres)



The merger with Texaco Canada in 1989 and divestments in 1990 have increased the efficiency of the company's network of retail outlets.

GASOLINE, HEATING, DIESEL, AND JET FUEL SALES VOLUMES
(billions of litres)



Total Canada
Imperial Domestic Sales

The company maintained about a one-third share of the Canadian market for high-value products.

Total proceeds of the sales were about $150 million, resulting in an after-tax gain of $10 million.

One important criterion of a successful merger was to retain a high percentage of former Texaco Canada customers during this period of major transition. To that end, the company introduced a new-look credit card that was distributed to both Esso and former Texaco Canada credit-card holders and increased spending on advertising and promotional campaigns.

As a result of those efforts, the company retained its share of branded gasoline sales in most parts of the country.

NEW PRODUCTS INCLUDED ENGINE AND HYDRAULIC OILS MADE FROM RE-REFINED OIL.

PETROLEUM PRODUCTS

FINANCIAL STATISTICS

millions of dollars	*1990*	*1989*	*1988*	*1987*	*1986*
Earnings	**222**	257	210	188	174
Revenues	**9758**	8414	5684	6241	5772
Capital expenditures					
Marketing	**103**	1369	115	96	75
Refining	**89**	766	64	67	68
Total capital expenditures	**192**	2135	179	163	143
Capital employed at December 31	**4792**	4318	2141	2183	2004
Return on average capital employed (percent)	**4.9**	6.5	9.7	9.0	7.6

SALES VOLUMES *millions of litres a day (1, 2)*

Gasolines	**32.1**	31.9	19.5	20.5	20.6
Heating, diesel and jet fuels	**29.1**	31.1	23.7	24.0	21.7
Heavy fuel oils	**9.7**	8.6	5.2	4.0	3.4
Liquid petroleum gas, lube oils and other products	**10.5**	11.1	8.2	8.3	7.0
Total petroleum products	**81.4**	82.7	56.6	56.8	52.7
Total domestic sales of petroleum products (percent)	**92.9**	92.8	90.7	91.0	90.2

CRUDE OIL UTILIZATION *millions of litres a day (2)*

Total crude-oil and NGL net production	**47.5**	48.7	38.8	35.3	31.3
Net purchases from others	**30.1**	29.0	17.1	21.0	21.6
Total crude oil processed at company refineries	**77.6**	77.7	55.9	56.3	52.9
Refinery capacity at December 31	**83.1**	86.3	66.2	66.3	66.0
Refinery utilization as a percentage of total capacity	**91**	93	84	85	80

(1) Excludes sales made under purchase and sale agreements with other companies (see page 32, Revenues).

(2) Volumes a day are calculated by dividing total volumes (including Texaco Canada from February 24, 1989) for the year by the number of days in the year.

One thousand litres is equal to approximately 6.3 barrels.

Esso Petroleum also introduced a number of new products during the year to attract new customers.

ENVIRONMENTALLY FRIENDLY PRODUCTS INTRODUCED

Following the total removal of lead from its gasolines by midyear — well ahead of the mandated deadline of December 1990 — the company introduced Esso Extra, a new mid-grade product with octane levels similar to those in leaded gasoline. Esso Extra gasoline is suitable for use in cars that previously ran on leaded fuel.

Esso Petroleum also introduced six new products manufactured from more than 50 percent re-refined oil — an engine oil and five hydraulic fluids. These new products are environmentally beneficial not only because they extend the use of non-renewable resources but because they reduce the need to find disposal sites for used oil.

In the Greater Vancouver area, the company introduced a new, reformulated gasoline aimed at reducing summer smog. The new product can reduce vehicle emissions that contribute to smog by up to 15 percent.

As a measure of the consistent quality of Esso products, the company's Sarnia refinery became one of the few in North America to receive the Ford Motor Company's coveted Q1 award for supplying fuels and lubricants.

Environmental issues are expected to have an important impact on the manufacture and sale of petroleum products in Canada during the coming decade. As a result, the company remains determined to play a continuing and constructive role in the introduction of environmental protection measures. Its main goal is to ensure that the highest priority items are addressed most cost-effectively.

Major areas of potential regulatory change are reductions in gasoline vapor pressure, reductions in the sulphur content of diesel fuels and further reformulations of gasoline. The company may have to invest more than $500 million in new refining and other facilities during the next five to eight years to meet new standards.

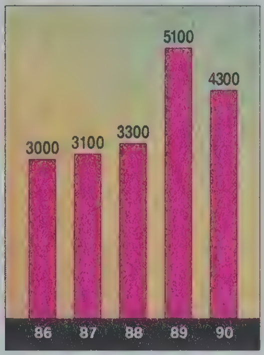
Capital expenditures, excluding acquisitions, were $192 million in 1990, compared with $239 million in 1989. The expenditures were aimed mainly at the maintenance of existing facilities. Expenditures in 1991 are expected to be $280 million.

SYNERGIES EXPECTED TO IMPROVE RETURNS

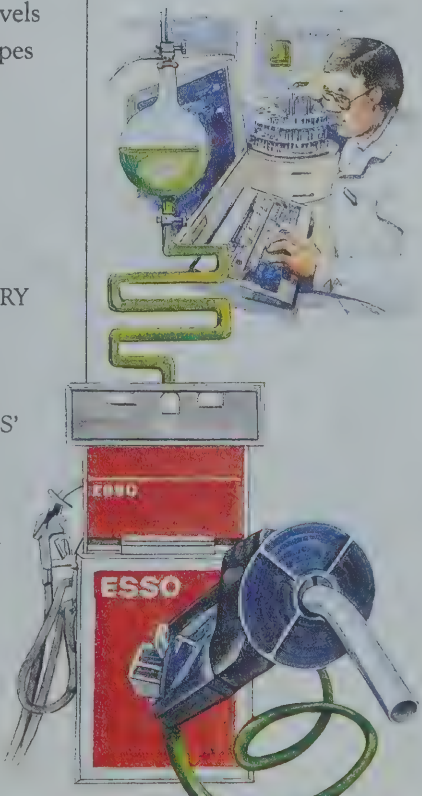
After several years of growth, it's possible that demand for petroleum products will decline over the next few years because of economic conditions and possible higher prices. That decline — when combined with foreseeable costs to comply with potential environmental regulations — could place increasing pressure on profit margins. However, the company believes that the significant synergies available from its merger with Texaco Canada — combined with the other operating improvements it is initiating — will improve its returns to levels comparable with those of other types of manufacturing industries.

RESEARCHERS AT IMPERIAL'S SARNIA LABORATORY HAVE BEEN INSTRUMENTAL IN DEVELOPING NEW LEAD-FREE 'GREEN GASOLINES' THAT REDUCE EMISSIONS WHILE PROVIDING OPTIMUM PERFORMANCE IN VEHICLES OLD AND NEW.

BRANDED AUTOMOTIVE RETAIL OUTLETS



The sale of retail outlets met commitments to competition authorities, eliminated duplication and helped raise $150 million for debt reduction.



CHEMICAL EARNINGS HURT BY ADVERSE BUSINESS CLIMATE

Earnings from chemical operations were $28 million in 1990, compared with $80 million in 1989 (1988 — $104 million).

Chemical revenues fell to $915 million in 1990 from $960 million the previous year (1988 — $990 million). The main reason for the decline was lower prices for most of the products sold by Esso Chemical.

For example, prices for polyethylene resins — one the division's largest sources of revenue — fell by more than 10 percent, on average, during the year. The lower prices have been caused by a combination of weakening worldwide demand and the start-up of new international production facilities.

Operating expenses rose by about six percent during the year, reflecting higher production volumes.

Despite poor market conditions, the company's petrochemical plants operated near capacity throughout the year. Overall petrochemical production increased by about five percent and output of polyethylene resins at the company's Sarnia plant reached record levels.

The company considers petrochemical production to have promising growth potential. Demand for these products is expected to grow by at least as much as the general economy during the coming decade. And the company's petrochemical production centre in Sarnia is well situated to serve the large American market that is within easy shipping distance and has become more accessible with the advent of Free Trade.

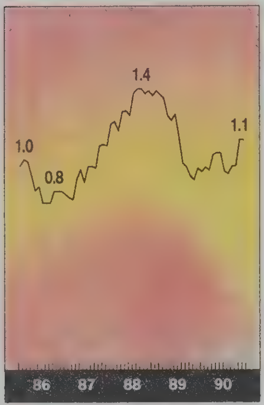
PVC CAPACITY GROWS BY ONE-THIRD

That outlook is one reason why the company expanded its production capacity for polyvinyl chloride (PVC) resins by about one-third in 1990. The expansion was achieved by debottlenecking existing facilities, which is the most economical way of increasing capacity. Production from the Sarnia polyethylene plant has also been expanded by more than 10 percent in recent years in the same fashion.

Higher output will allow these manufacturing facilities to achieve the economies of scale needed to remain competitive in global markets. The advantage of world-scale production is why the company is currently studying participation in a joint venture that would significantly

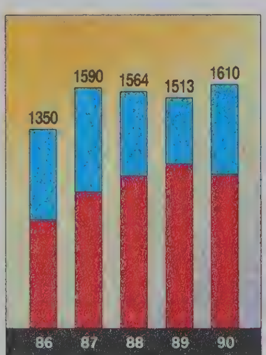
CANADIANS ARE RECYCLING, AND ESSO CHEMICAL PLASTICS, USED IN BLUE BOXES AND LEAF COMPOSTING BAGS, ARE LENDING A HAND.

POLYETHYLENE PRICE
(thousands of dollars a tonne)



Polyethylene prices have fallen significantly from their cyclical peak in early 1989, contributing to the sharp drop in chemical earnings.

FERTILIZER SALES
(thousands of tonnes)



Weak fertilizer demand in the company's prime western Canadian market led to increased sales in offshore markets, where selling margins are lower.

increase its output of ethylene and polyethylene in Sarnia.

OFFSHORE SALES VOLUMES UP, MARGINS LOWER

In fertilizer operations, revenues were essentially unchanged from the previous year. Bumper grain crops around the world caused grain prices to fall, which caused domestic demand for fertilizer to weaken during the second half of the year. As a result, the company took advantage of strong offshore markets, which increased sales volumes to record levels but lowered selling margins.

The lack of progress in international trade talks aimed at reducing agricultural subsidies will continue to put pressure on farm incomes, grain prices and growth in demand for fertilizer. However, world prices for nitrogen fertilizer have strengthened recently, due to a reduction in exports from major sources such as Iraq, Kuwait and Romania.

The company's strategy in this environment is to control production costs tightly and sell as much as possible in its primary western Canadian markets. It will also continue to develop new products and services. Current ones include a fertilizer that provides time-controlled release of nutrients as well as one that uses microbes to improve the way plants take up nutrients.

Capital expenditures in chemicals were $42 million in 1990, compared with $50 million in 1989. Expenditures in 1991 are expected to be about $45 million.

The chemical industry is one that is generally very strongly affected by changes in the business cycle. Petrochemical prices reached a peak in early 1989, at a time when economic activity was also peaking. Since then, a deepening recession has caused chemical earnings to fall significantly. Given the cyclical natural of the business, the company's strategy in chemicals is to stress customer satisfaction and prudent cost management, while investing selectively to take advantage of periods of peak demand.

CHEMICALS

millions of dollars	***1990***	*1989*	*1988*	*1987*	*1986*
Earnings	**28**	80	104	34	17
Revenues	**915**	960	990	832	780
Capital expenditures	**42**	50	32	22	29
Capital employed at December 31	**864**	815	833	890	947
Return on average capital employed (percent)	**3.3**	9.7	12.1	3.7	1.8

SALES VOLUMES

thousands of tonnes a day	***1990***	*1989*	*1988*	*1987*	*1986*
Petrochemicals	**2.2**	2.1	2.1	2.0	1.9
Agricultural chemicals	**4.4**	4.1	4.3	4.4	3.7

One tonne is equal to approximately 1.1 short tons or 0.98 long ton.

NEW PRODUCTS AND SERVICES SUCH AS THESE WHITE PELLETS OF TIME-CONTROLLED-RELEASE FERTILIZER ARE BEING INTRODUCED TO WIN MORE CUSTOMERS IN THE COMPETITIVE AGRICULTURAL CHEMICAL INDUSTRY.

Corporate and other accounts recorded a charge to earnings of $205 million in 1990, compared with a charge of $220 million in 1989 (1988 — earnings of $36 million). The main reason for the improvement was lower interest costs.

In 1990 the company sold its 22.8-percent interest in Interhome Energy Inc. for $500 million. The sale resulted in a before-tax gain of $244 million ($208 million, after-tax). Although Imperial had a long association with Interhome, its minority interest in this company was no longer of strategic value, and the sale made an important contribution to debt reduction.

The gain was offset by a $350-million charge ($215 million, after-tax) for the workforce reduction program.

R B Peterson

CONSOLIDATED STATEMENT OF EARNINGS

For the years ended December 31

millions of dollars	*1990*	*1989*	*1988*	*1987*	*1986*
REVENUES					
Operating revenues	**11 226**	10 007	7 105	7 559	6 946
Interest and investment income (16)	**72**	97	100	113	100
TOTAL REVENUES (2)	**11 298**	10 104	7 205	7 672	7 046
EXPENSES					
Exploration	**94**	129	123	77	116
Purchases of crude oil and products	**3 927**	3 406	2 510	2 897	3 012
Operating	**3 260**	2 997	2 252	2 118	2 035
Commodity and other taxes (11)	**1 758**	1 619	964	989	743
Depreciation and depletion	**884**	815	462	392	343
Interest (9)	**345**	457	102	83	104
TOTAL EXPENSES	**10 268**	9 423	6 413	6 556	6 353
UNUSUAL ITEMS (1)	**(210)**	22	—	38	(246)
EARNINGS BEFORE INCOME TAXES	**820**	703	792	1 154	447
INCOME TAXES (10)	**327**	247	291	408	162
NET EARNINGS	**493**	456	501	746	285
PER-SHARE INFORMATION (dollars)					
Net earnings (15)	**2.58**	2.54	3.06	4.55	1.74
Dividends	**1.80**	1.80	1.80	1.65	1.60

The notes referred to on this and the following two pages are found in the notes to the consolidated financial statements, pages 34 to 40.

The summary of significant accounting policies and glossary of terms are found on pages 32 and 33.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31

millions of dollars inflow (outflow)	*1990*	*1989*	*1988*	*1987*	*1986*
OPERATING ACTIVITIES					
Cash flow provided from earnings (3)	**1 057**	1 353	1 199	1 230	741
Change in operating assets and liabilities (4)	**(23)**	(214)	76	(67)	645
Dividends paid	**(342)**	(309)	(293)	(260)	(263)
CASH PROVIDED FROM OPERATING ACTIVITIES	**692**	830	982	903	1 123
INVESTING ACTIVITIES					
Payments for capital and exploration expenditures	**(678)**	(871)	(976)	(741)	(648)
Payments for acquisitions (a)	**—**	(4 815)	(410)	(671)	—
Proceeds from sale of property, plant and equipment and other long-term assets	**1 003**	170	17	159	53
Short-term investments—net	**—**	94	91	20	41
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES	**325**	(5 422)	(1 278)	(1 233)	(554)
FINANCING ACTIVITIES					
Long-term debt issued	**—**	3 006	34	216	—
Repayment of long-term debt and other obligations	**(1 278)**	(32)	(30)	(30)	(345)
Short-term debt—net	**176**	103	(17)	37	(1)
Common shares issued (15)	**119**	1 319	—	—	21
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES	**(983)**	4 396	(13)	223	(325)
INCREASE (DECREASE) IN CASH	**34**	(196)	(309)	(107)	244
CASH AT BEGINNING OF YEAR	**(100)**	96	405	512	268
CASH AT END OF YEAR	**(66)**	(100)	96	405	512

(a) Payments for acquisitions represent the amounts paid in 1989 for Texaco Canada Inc.; in 1988, for certain assets of United Canso Oil & Gas Ltd. and Ocelot Industries Ltd.; and in 1987, for the assets of Sulpetro Limited. Minor acquisitions that are part of the ongoing business are included in the line 'payments for capital and exploration expenditures'.

CONSOLIDATED BALANCE SHEET

As at December 31

millions of dollars	*1990*	*1989*	*1988*	*1987*	*1986*
ASSETS					
Current assets					
Cash	—	—	96	405	512
Marketable securities at cost	2	2	28	116	144
Accounts receivable	1 411	1 055	796	791	670
Inventories of crude oil and products	1 488	1 130	674	882	819
Materials, supplies and prepaid expenses	189	182	149	144	132
Income taxes recoverable	—	—	71	13	119
Total current assets	3 090	2 369	1 814	2351	2 396
Investments and other long-term assets (5)	296	523	364	368	372
Property, plant and equipment (2,12)	11 378	12 206	7 494	6 720	5 814
Goodwill (12)	432	478	10	10	2
TOTAL ASSETS	15 196	15 576	9 682	9 449	8 584
LIABILITIES					
Current liabilities					
Outstanding cheques, less cash	66	100	—	—	—
Short-term debt	299	123	20	37	—
Accounts payable and accrued liabilities (18)	1 618	1 397	923	1 005	888
Income taxes payable	421	27	—	—	—
Total current liabilities	2 404	1 647	943	1 042	888
Long-term debt (7)	2 526	3 817	805	823	668
Other long-term obligations (6)	750	590	458	427	408
Commitments and contingent liabilities (8)					
TOTAL LIABILITIES	5 680	6 054	2 206	2 292	1 964
DEFERRED INCOME TAXES	2 065	2 340	1 748	1 637	1 577
SHAREHOLDERS' EQUITY					
Common shares (15)	2 866	2 746	1 426	1 424	1 423
Earnings retained and used in the business:					
At beginning of year	4 436	4 302	4 096	3 620	3 597
Earnings for the year	493	456	501	746	285
Dividends	(344)	(322)	(295)	(270)	(262)
At end of year	4 585	4 436	4 302	4 096	3 620
TOTAL SHAREHOLDERS' EQUITY	7 451	7 182	5 728	5 520	5 043
TOTAL LIABILITIES, DEFERRED INCOME TAXES AND SHAREHOLDERS' EQUITY	15 196	15 576	9 682	9 449	8 584

The summary of significant accounting policies and glossary of terms and notes are part of these consolidated financial statements.

Approved by the directors

Arden R. Haynes

Chairman and chief executive officer

R.H. Brennan

Senior vice-president and chief financial officer

MANAGEMENT REPORT

The accompanying consolidated financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information contained throughout this annual report is consistent with these financial statements.

Management has developed and maintains an extensive system of internal control that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the company's operating and financial results and that the company's assets are safeguarded. The company's internal audit department reviews and evaluates the adequacy of and compliance with the company's internal controls. As well, it is the policy of the company to maintain the highest standard of ethics in all its activities.

Imperial's board of directors has approved the information contained in the financial statements. The board fulfills its responsibility regarding the financial statements mainly through its audit committee, details of which are provided on page 3.

Price Waterhouse, an independent firm of chartered accountants, was appointed by a vote of shareholders at the company's last annual meeting to examine the consolidated financial statements and provide an independent professional opinion.

Arden R. Haynes

R B Peterson

R.H. Brennan

AUDITORS' REPORT

TO THE SHAREHOLDERS OF IMPERIAL OIL LIMITED

We have audited the consolidated statements of earnings and of cash flows of Imperial Oil Limited for each of the three years in the period ended December 31, 1990 and the consolidated balance sheet as at December 31, 1990 and 1989. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the company for each of the three years in the period ended December 31, 1990 and its financial position as at December 31, 1990 and 1989 in accordance with generally accepted accounting principles in Canada.

Price Waterhouse

Chartered Accountants
1 First Canadian Place
Toronto, Ontario
February 21, 1991

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Imperial Oil Limited and its subsidiaries. Intercompany accounts and transactions are eliminated. A list of significant subsidiaries is shown on page 45. A significant portion of the company's activities in natural resources is conducted jointly with other companies. The accounts reflect the company's proportionate interest in such activities.

Inventories

Inventories are recorded at the lower of cost and net realizable value. The cost of crude oil at refineries and of products is primarily determined using the average-cost method. (Average cost is the weighted average of the cost of the opening inventory and the cost of inventory produced or purchased, calculated on a monthly basis.) Crude oil in transit is valued at actual cost.

Investments

The principal investments in companies other than subsidiaries are accounted for using the equity method. They are recorded at the original cost of the investment plus Imperial's share of earnings since the investment was made, less dividends received. Imperial's share of the after-tax earnings of these companies is included in "interest and investment income" in the consolidated statement of earnings. Other investments are recorded at cost. Dividends from these investments are recorded as income.

Property, Plant and Equipment

Property, plant and equipment, including related preoperational and design costs of major projects, are recorded at cost. Cost for property, plant and equipment of acquired companies is the fair market value to the company at the date of acquisition.

The company follows the successful-efforts method of accounting for its exploration and development activities. Under this method, costs of exploration acreage are capitalized and amortized over the period of exploration or until a discovery is made. Costs of exploration wells are initially capitalized until their success can be determined. If the well is successful, the costs remain capitalized; otherwise they are expensed. Capitalized exploration costs are reevaluated annually. All other exploration costs are expensed as incurred. Development costs, including the cost of natural gas and natural-gas liquids used as injectants in enhanced (tertiary) oil recovery projects, are capitalized.

Maintenance and repair costs are expensed as incurred. Improvements that increase or prolong the service capacity of an asset are capitalized.

Investment tax credits and other similar grants are treated as a reduction of the capitalized cost of the asset to which they apply.

Depreciation and depletion (the allocation of the cost of assets to expense over the period of their useful lives) are calculated using the unit-of-production method for producing properties; while depreciation of other plant and equipment is calculated using the straight-line method, based on the estimated service life of the asset. Major assets, including refineries, chemical plants and service stations, are depreciated over 20 years.

Gains or losses on assets sold or otherwise disposed of are included in the consolidated statement of earnings.

Goodwill

Goodwill is charged to earnings on a straight-line basis over the period of expected continuing value, to a maximum of 20 years. The amortization of goodwill is included in depreciation and depletion expense.

Revenues

Certain purchases and sales of crude oil and products are undertaken to improve the company's operating efficiency. Some of the company's crude-oil production is sold and other types of crude oil are purchased to optimize refining operations. Product purchase/sale agreements with other companies help the company to meet its supply requirements while reducing transportation and other costs. Such sales and purchases are offset in the consolidated statement of earnings.

Consumer Taxes and Crown Royalties

Taxes levied on the consumer and collected by the company are excluded from the consolidated statement of earnings. These are primarily provincial taxes on motor fuels. Crown royalties are also excluded from the consolidated statement of earnings.

In order to encourage investment, the province of Alberta has reduced the amount of royalties payable during the early years of certain projects by allowing for the deduction of certain capital costs in determining royalties. The result is an increase in the company's share of production, which is accounted for as additional income.

Translation of Foreign Currencies

Gains and losses on forward-exchange contracts, which are hedges against foreign-currency exposures, are offset against the associated gains and losses of the hedged item.

Long-term monetary liabilities payable in foreign currencies have been translated at the rates of exchange prevailing on December 31. Exchange gains and losses arising from the translation of long-term debt are amortized over the remaining term of the debt.

Interest Costs

Interest costs are included in expenses as incurred.

Natural-gas Take-or-pay Contracts

Amounts received under take-or-pay contracts for future delivery of natural gas are recorded as deferred revenue. These amounts are included in sales revenue when the gas is delivered.

Glossary of Terms

Capital employed is total assets less current liabilities excluding short-term debt and the current portion of long-term debt.

Cash represents cash at bank and cash equivalents, which are all highly-liquid securities with a maturity of three months or less when purchased.

Debt represents amounts borrowed from external sources (including amounts assumed as a result of acquisitions). These amounts consist of short-term debt plus long-term debt (including long-term debt due within one year). **Total debt** is the sum of debt borrowed from external sources and guarantees relating to third party debt.

Deferred income taxes are the difference between income taxes deducted in calculating earnings according to conventional accounting practice and taxes currently payable under income-tax legislation. They result from certain deductions from income being recognized in different periods for tax and accounting purposes. The largest source of deferred income taxes is depreciation and depletion, where deductions are made earlier for tax purposes than for accounting purposes. Deferred income taxes are not a liability under the law.

Hedges are actions taken to offset the risk to the company of market fluctuations. The most common involve agreements to buy or sell foreign currency in the future at a set rate, so as to offset the risk of foreign-exchange rate fluctuations.

Marketable securities are securities of the governments of Canada and the provinces, banks and other corporations with a maturity of greater than three months when purchased. These securities are either short-term with a fixed interest rate or are floating-rate securities, with rates dependent upon short-term interest rates.

Net realizable value is the estimated selling price of an asset, less the estimated costs of preparing the asset for sale and of selling it.

Operating assets and liabilities consist of current assets and liabilities together with other long-term assets and certain long-term obligations.

Financial Percentages and Ratios

Current ratio

$$= \frac{\text{current assets}}{\text{current liabilities}}$$

Measures the ability to pay short-term debts.

Total debt as a percentage of capital

$$= \frac{\text{debt + guarantees to third parties}}{\text{debt + guarantees to third parties + shareholders' equity}}$$

Measures financial strength — lower percentages indicate greater financial strength.

Interest coverage ratio

$$= \frac{\text{net earnings + total interest expense + income taxes}}{\text{total interest expense}}$$

Shows the company's current ability to afford its level of debt.

Price/earnings ratio

$$= \frac{\text{the closing share price as at December 31}}{\text{the net earnings per share}}$$

Indicates what investors generally think about the company's prospects.

Return on average capital employed

$$= \frac{\text{net earnings + after-tax interest expenses}}{\text{average capital employed}}$$

Measures the productivity of the company's assets.

Return on average shareholders' equity

$$= \frac{\text{net earnings}}{\text{average shareholders' equity}}$$

Shows the return earned by shareholders on their investment in the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. UNUSUAL ITEMS

millions of dollars	*1990*	*1989*	*1988*
Gain from divestments (a)	376	22	—
Workforce reduction program (b)	(350)	—	—
Write-off of Beaufort Sea offshore assets (c)	(141)	—	—
Write-down of Byron Creek assets (d)	(95)	—	—
Total unusual items before income taxes (e)	(210)	22	—

(a) Since the acquisition of Texaco Canada in February 1989, the company has sold certain assets to improve the efficiency of its operations, to meet commitments made to the Government of Canada and to reduce the debt incurred in the acquisition.

(b) The company intends to reduce its workforce by about 20 percent and in October 1990 introduced programs to achieve that goal. The programs include enhanced pension benefits and lump sum payments, depending on various eligibility criteria. A provision of $350 million has been made to cover the cost of the workforce reduction, of which $5 million was paid in 1990.

(c) In 1990, the company wrote off previously capitalized offshore Beaufort costs because of the lack of any current exploration drilling plans, the long development lead times involved and other uncertainties.

(d) In 1990, the company wrote down the Byron Creek coal mine to reflect the value of that resource under current and anticipated market conditions.

(e) The after tax impact of the unusual items was:

millions of dollars	*1990*	*1989*	*1988*
Gain from divestments (a)			
Natural resources	116	33	—
Petroleum products	10	—	—
Corporate and other	208	—	—
Total gain from divestments after income taxes	334	33	—
Workforce reduction program (b)	(215)	—	—
Offshore Beaufort write-off (c)	(70)	—	—
Byron Creek coal mine write-down (d)	(78)	—	—
Total unusual items after income taxes	(29)	33	—

2. BUSINESS SEGMENTS

millions of dollars
Revenues
External
Intersegment sales
Total revenues
Earnings before the items listed below
Depreciation and depletion
Unusual items (note 1)
Gain from divestments
Workforce reduction program
Offshore Beaufort write-off
Byron Creek coal mine write-down
Earnings before income taxes
Income taxes
Net earnings
Total assets
Total capital employed

Property, plant and equipment

millions of dollars
Natural resources
Exploration and production
Heavy oil
Coal and other
Petroleum products
Chemicals
Corporate and other
Total

The information in the above tables is presented as though each segment was a separate business activity. Intersegment sales are made essentially at prevailing market prices. The consolidated figures exclude all intersegment transactions. The company operates its business in Canada in the following industry segments:

	Natural resources			*Petroleum products*			*Chemicals*			*Corporate and other*			*Consolidated*		
	1990	*1989*	*1988*	*1990*	*1989*	*1988*	*1990*	*1989*	*1988*	*1990*	*1989*	*1988*	*1990*	*1989*	*1988*
	822	814	603	9515	8274	5570	871	911	939	90	105	93	11298	10104	7205
	2133	1825	1278	243	140	114	44	49	51	16	12	15	—	—	—
	2955	2639	1881	9758	8414	5684	915	960	990	106	117	108	11298	10104	7205
	1492	1097	485	652	682	496	101	185	234	(331)	(468)	39	1914	1496	1254
	(556)	(532)	(264)	(245)	(214)	(128)	(55)	(54)	(58)	(28)	(15)	(12)	(884)	(815)	(462)
	118	22	—	14	—	—	—	—	—	244	—	—	376	22	—
	—	—	—	—	—	—	—	—	—	(350)	—	—	(350)	—	—
	(141)	—	—	—	—	—	—	—	—	—	—	—	(141)	—	—
	(95)	—	—	—	—	—	—	—	—	—	—	—	(95)	—	—
	818	587	221	421	468	368	46	131	176	(465)	(483)	27	820	703	792
	370	248	70	199	211	158	18	51	72	(260)	(263)	(9)	327	247	291
	448	339	151	222	257	210	28	80	104	(205)	(220)	36	493	456	501
	8168	8796	5409	6194	5549	2626	982	942	893	(148)	289	754	15196	15576	9682
	7452	8303	5136	4792	4318	2141	864	815	833	(15)	624	664	13093	14060	8774

	Cost			*Accumulated depreciation and depletion*			*Net property, plant and equipment*			**Capital and exploration expenditures** *(including acquisitions)*		
	1990	*1989*	*1988*	*1990*	*1989*	*1988*	*1990*	*1989*	*1988*	*1990*	*1989*	*1988*
	8007	8264	4544	2096	1746	1320	5911	6518	3224	343	3884	802
	2070	2025	1974	464	398	340	1606	1627	1634	51	63	282
	150	152	204	128	32	40	22	120	164	5	16	23
	10227	10441	6722	2688	2176	1700	7539	8265	5022	399	3963	1107
	4480	4415	2882	1599	1441	1348	2881	2974	1534	192	2135	179
	1247	1204	1159	524	469	417	723	735	742	42	50	32
	382	366	316	147	134	120	235	232	196	35	51	58
	16336	16426	11079	4958	4220	3585	11378	12206	7494	668	6199	1376

Natural resources includes the exploration for, and production of, crude oil, natural gas and coal.

Petroleum products consists of the refining of crude oil into petroleum products and the distribution and marketing of these products.

Chemicals consists of the manufacturing and marketing of various hydrocarbon based chemicals and fertilizers.

Corporate and other includes assets and liabilities that do not specifically relate to business segments — primarily cash, marketable securities, various investments, long-term debt, and consolidating adjustments. Net earnings in this category include income and gains from investments, interest expense on financing activities and consolidating adjustments.

Notes to the Consolidated Financial Statements

3. Cash Flow Provided from Earnings

millions of dollars	*1990*	*1989*	*1988*
Net earnings	493	456	501
Exploration expenses (a)	94	129	123
Non-cash items included in earnings			
Depreciation and depletion (b)	884	815	462
Gain from divestments	(376)	(22)	—
Offshore Beaufort write-off	141	—	—
Byron Creek coal mine write-down	95	—	—
Deferred income taxes	(265)	(16)	122
Other	(9)	(9)	(9)
Total cash flow provided from earnings	1057	1353	1199

(a) Exploration expenses have been deducted in arriving at net earnings. For the purpose of the consolidated statement of cash flows they are reclassified and included in investing activities.

(b) Includes $59 million of goodwill charged to earnings in 1990 (1989 — $40 million; 1988 — $2 million).

4. Change in Operating Assets and Liabilities

millions of dollars inflow (outflow) of cash	*1990*	*1989*	*1988*
Receivables	(401)	131	7
Inventories and prepaids	(410)	(76)	197
Liabilities (a)	788	(269)	(128)
Total change in operating assets and liabilities	(23)	(214)	76

(a) Includes liabilities of $345 million related to the 1990 workforce reduction program.

5. Investments and Other Long-Term Assets

millions of dollars	*1990*	*1989*
Investments		
Recorded at equity value:		
Interhome Energy Inc. (a)	—	246
Other (b)	73	72
Recorded at cost	13	13
Total investments	86	331
Other long-term assets	210	192
Total investments and other long-term assets	296	523

(a) In 1990, Imperial sold its 22.8% interest in Interhome Energy Inc.

(b) These other investments, without quoted market value, primarily represent interests in crude-oil and product pipeline companies.

6. Other Long-Term Obligations

millions of dollars	*1990*	*1989*
Deferred revenue on take-or-pay gas contracts	57	99
Employee retirement income benefits (note 13)	363	192
Other post-employment benefits (note 14)	165	157
Deferred foreign-exchange gain on long-term debt	37	42
Other obligations	128	100
Total other long-term obligations	750	590

7. Long-Term Debt

Year of issue	*maturity date*	*rate of interest*	*1990 millions of dollars*	*1989*
Sinking-fund debentures				
1972	February 15, 1992	7 3/4	10	12
1974	August 15, 1994	10 5/8	28	44
1974	December 31, 1994	10 3/4	29	45
1975	February 15, 1995	9 3/4	30	48
1979	September 15, 2009 (1990 — U.S. $119 million; 1989 — U.S. $226 million)	9 3/4	138	262
1989	October 15, 2019 (1990 — U.S. $300 million; 1989 — U.S. $300 million)	8 3/4	348	347
Total sinking-fund debentures			583	758
Other debentures and notes				
1983	March 31, 1993	12	51	125
1983	January 3, 1997	5	24	24
1987	June 30, 1993	10.724	—	200
1988	March 31, 1994 (1989 — U.S. $21 million)	9 1/2	—	25
1988	March 31, 1994	10 1/2	—	5
1989	December 15, 1999	9 7/8	297	300
1989	September 1, 2004 (1990 — U.S. $1,300 million; 1989 — U.S. $2,000 million) (a)	Variable	1508	2317
Total debentures and notes			2463	3754
Capital leases (b)			63	63
Total long-term debt (c)			2526	3817

(a) This debt bears interest based primarily on U.S. commercial paper interest rates and may be repaid in part or in full at any time before maturity without premium. The average effective rate for 1990 was 8.0 percent (1989 — 8.527 percent).

(b) Capital lease principal payments made during 1990 were $3 million (1989 — $5 million; 1988 — $5 million). Imputed interest on capitalized leases will be $40 million during the next five years and $79 million beyond five years and over the remaining life of the leases.

(c) Minimum future principal payments:

	Sinking-fund debentures	*Other debentures and notes*	*Capital leases*
	millions of dollars		
1991	—	—	2
1992	10	—	2
1993	—	51	1
1994	57	—	1
1995	30	—	1

At December 31, 1990, the company had $612 million of uncommitted unused lines of credit available for short-term financing.

8. Commitments and Contingent Liabilities

At December 31, 1990, the company had commitments for noncancellable operating leases and other long-term agreements that require the following minimum future payments:

	Operating leases (a)	*Other long-term agreements (b)*
	millions of dollars	
1991	58	159
1992	49	132
1993	41	99
1994	30	96
1995	23	92
after 1995	60	652

(a) Total rental expense incurred for operating leases in 1990 was $141 million (1989 — $122 million; 1988 — $87 million).

(b) Total payments under long-term agreements were $227 million in 1990 (1989 — $202 million; 1988 — $198 million).

In addition, the company has provided other long-term guarantees totaling $53 million. As part of an agreement with Interprovincial Pipe Line (NW) Ltd. for the construction of a pipeline to the company's Norman Wells oil field, Imperial Oil agreed to minimum pipeline charges, to the year 2010, sufficient to service the debt associated with the pipeline. These amounts are included in the above table. The amount of that debt outstanding at December 31, 1990, was $201 million.

The company has made certain undertakings to the Government of Canada related to its 1989 purchase of Texaco Canada. In 1990, the company fulfilled its commitment on the sale of oil and gas assets. The company committed to invest, through December 31, 1992, a minimum of 70 percent of its cash flows from oil and gas operations before debt servicing in those operations, providing that economic opportunities exist.

The company has agreed to divest its interests in 635 service stations and 14 distribution terminals across Canada, including the Texaco Canada assets in Atlantic Canada. In 1990, the company sold Texaco Canada's assets in Atlantic Canada, and divested its interests in most of those service stations outside of Atlantic Canada. Divestment of most of the remaining facilities is expected to be completed in 1991. The company has also agreed to continue to supply agreed volumes of gasoline to independent marketers in Ontario and Quebec for periods up to 10 years.

Other commitments for operating and capital needs, all arising in the normal course of business, do not significantly affect the company's consolidated financial position.

The company's policy for site cleanup and restoration is to meet or exceed current legal requirements to protect the environment. Certain of the sites used in the company's operations will require some cleanup and restoration, usually when the site is sold or no longer used in a petroleum business activity. The company is continuing to review these requirements.

Provision is made for cleanup costs where there is a contractual agreement or the site is closed and there is a management approved site restoration plan. The provision at December 31, 1990, was $28 million (1989 — $23 million). The amount of additional costs has not been determined but is not expected to have a material effect on the company's annual financial results as cleanup costs occur over a number of years.

Various lawsuits are pending against Imperial Oil Limited and its subsidiaries. The actual liability with respect to these lawsuits is not determinable, but management believes, based upon the opinion of counsel, that any liability will not materially affect the company's consolidated financial position.

9. Interest Expense

millions of dollars	*1990*	*1989*	*1988*
Long-term debt			
Debentures and notes	**305**	288	75
Capital leases	**11**	10	10
Short-term notes (a)	**25**	144	3
Other	**4**	15	14
Total interest expense	**345**	457	102

(a) Short-term notes formed part of the initial financing of the 1989 Texaco Canada acquisition. Most of these notes were replaced with long-term financing in that year.

Cash interest payments in 1990 were $356 million (1989 — $415 million; 1988 — $103 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAXES

millions of dollars	*1990*	*1989*	*1988*
Summary of income-tax calculations			
Earnings before income taxes	820	703	792
Deduct:			
Earnings from equity investments	21	40	32
Adjusted earnings	799	663	760
Basic corporate tax rate (percent)	43.6	42.0	46.2
Income taxes at basic rate	348	278	351
Increases (decreases) resulting from:			
Nondeductible payments to governments	111	103	54
Resource allowance	(115)	(121)	(59)
Depletion allowance	(13)	(25)	(25)
Manufacturing and processing credit	—	(5)	(19)
Nondeductible depreciation and amortization	125	73	—
Gain on divestments	(125)	(22)	—
Other	(4)	(34)	(11)
Income tax expense	327	247	291
Effective income-tax rate (percent)	40.9	37.3	38.3
Increases (decreases) in deferred income taxes from timing differences:			
Depreciation	(154)	63	50
Pensions	(101)	(17)	(15)
Successful drilling, injectants and land acquisitions	10	(11)	47
Revaluation of Texaco Canada inventory on acquisition	—	(40)	—
Other	(20)	(11)	40
Deferred income tax expense	(265)	(16)	122
Current income tax expense	592	263	169

The operations of the company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. The company believes the provision made for income taxes is adequate.

Cash income-tax payments, after deducting investment tax credits, were $190 million in 1990 (1989 — $504 million; 1988 — $172 million).

11. NET PAYMENTS TO GOVERNMENTS

millions of dollars	*1990*	*1989*	*1988*
Current income taxes (note 10)	592	263	169
Commodity and other taxes			
Federal sales tax	556	521	331
Fuel excise taxes	1075	977	545
Property and other taxes	127	121	88
Total commodity and other taxes	1758	1619	964
Payroll taxes included in expenses	37	27	23
Consumer taxes collected on behalf of governments	1476	1271	745
Crown royalties	375	294	154
Total paid or payable to governments	4238	3474	2055
Less investment tax credits and other receipts	30	27	35
Net payments to governments	4208	3447	2020
Net payments to			
Federal government	2041	1666	982
Provincial governments	2072	1687	965
Local governments	95	94	73
Net payments to governments	4208	3447	2020

12. ACQUISITION OF TEXACO CANADA INC. (NOW McCOLL-FRONTENAC INC.)

Imperial's consolidated earnings and cash flows include the financial results of McColl-Frontenac from February 24, 1989, when the outstanding shares were acquired. The acquisition of this major fully integrated oil company was accounted for using the purchase method. The final allocation of the February 1989 purchase price was as follows:

millions of dollars	
Cash	145
Operating working capital	66
Investments and other long-term assets	190
Property, plant and equipment (a)	4820
Goodwill (a)	508
	5729
Less:	
Assumption of long-term debt and other obligations	161
Assumption of deferred income taxes	608
	4960

The initial financing consisted of the issue of 5 million common shares and $4,651 million of debt. The company's debt has since been reduced by $2,663 million through the issue of additional common shares, proceeds from asset sales and cash provided from operating activities.

(a) In 1990, finalization of the purchase price allocation resulted in an $87 million increase in goodwill and a corresponding decrease in property, plant and equipment. The 1989 information in the consolidated balance sheet has been restated.

13. Employee Retirement Income Benefits

Retirement income benefits are company paid and cover almost all employees. Benefits are based on years of service and final average earnings. The company's related obligations are met through funded registered retirement plans, and through unfunded supplementary benefits that are paid directly to most surviving spouses and certain retirees. The data below include funded benefits provided through the Imperial Oil retirement plan, the McColl-Frontenac retirement plan and the company's share of the Syncrude retirement plan and, unfunded benefits.

Pension expense and obligations for both the funded and unfunded benefits are determined in accordance with generally accepted accounting principles and actuarial procedures. The process includes making certain assumptions, which are described in (a).

Annual pension expense

millions of dollars	*1990*	*1989*	*1988*
Pension expense before 1990 workforce reduction program	94	89	78
Pension expense of 1990 workforce reduction program (c)	156	—	—
Total pension expense	250	89	78

Assets of the retirement plans are held primarily in equity, fixed-income and money-market securities, real estate and resource properties. Company contributions to the retirement plans are based on independent actuarial valuations and are made in accordance with government regulations. These contributions amounted to $60 million in 1990 (1989 — $41 million).

Funded status of the company's obligations at December 31

millions of dollars	*1990*	*1989*
Funded retirement plans:		
Market value of assets	1725	1793
Accumulated earned benefit obligation (b)	1597	1328
Assets excess	128	465
Additional unearned benefit obligation (b)	450	327
(Unfunded obligation) retirement plan surplus	(322)	138
Unfunded supplementary retirement income obligations (b)	278	381
Net unfunded obligations	600	243
The net unfunded obligations consist of:		
Long-term liability (note 6)	363	192
Current liability	12	14
Prepaid pension cost	(51)	(58)
Unrecorded obligations — net	276	95
Total	600	243

Unrecorded obligations are amortized over the expected average remaining service of employees, which is currently 16 years (1989 — 17 years).

(a) For each of the past three years, the discount rate, long-term return on plan assets and the rate-of-pay increases were assumed to be 8.5 percent, 8.5 percent and 6.0 percent respectively. Both the obligation and expense data presented are sensitive to these assumptions as the following table shows for 1990.

millions of dollars	*Projected benefit obligation (b)*	*Pension expense*
As calculated using company's assumptions	2325	94
Impact of one-percent change in:		
— rate of return and discount rate	293	30
— pay increases	116	23

(b) Retirement benefit obligations consist of earned and unearned amounts. The accumulated earned benefit obligation is based on the benefit formula, service to date and current pay; the additional unearned benefit obligation is the extra amount that results from projected pay increases to the date of retirement. The unfunded supplementary retirement income obligations include both the earned and unearned amounts on a combined basis. The total is called the projected benefit obligation.

(c) This amount is part of the workforce reduction program described in note 1.

Additional information based on United States reporting requirements is provided on pages 44 and 45 (notes 6, 7).

14. Other Post-Employment Benefits

The company shares the cost of certain health-care and life-insurance benefits for almost all retired employees and surviving spouses. The liability for this cost has been recorded for employees' service to date and for retirees. The annual charge to earnings is based on service provided in the year; cash payments are charged to the liability.

In 1990 other post-employment benefits expense was $21 million (1989 — $14 million; 1988 — $12 million). The 1990 expense includes $5 million for the workforce reduction program.

Amounts recognized at December 31

millions of dollars	*1990*	*1989*
Long-term liability (note 6)	165	157
Current liability	10	8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. COMMON SHARES

number of shares	***1990***	*1989*	*1988*
Authorized (Class A and B)	**225 000 000**	225 000 000	200 000 000
Issued at December 31			
Class A	**191 496 994**	189 326 608	162 823 125
Class B	**256 743**	366 979	880 356
Total	**191 753 737**	189 693 587	163 703 481
Transactions during the year			
Issues (a)	**—**	24 791 453	—
Dividend reinvestment and share purchase plan (b)	**2 049 562**	1 173 604	—
Class B stock dividends (c)	**10 588**	25 049	29 827
Total	**2 060 150**	25 990 106	29 827

Both Class A and Class B shares are convertible on a share-for-share basis and rank equally in all respects, including voting privileges.

(a) In 1989, shares valued at $1,254 million were issued. In February 1989, shares were issued as part of the initial financing of the 1989 Texaco Canada acquisition. A subsequent share issue occurred in June 1989 as part of the restructuring of this financing.

(b) The dividend reinvestment and share purchase plan enables shareholders to reinvest their cash dividends in additional Class A shares and also to invest between $50 and $5,000 each calendar quarter in Class A or B shares. In May 1989, the company reintroduced a five-percent discount on its dividend reinvestment option of the plan and began issuing new shares to those participating in the plan. In 1990, the shares issued were valued at $119 million (1989 — $65 million). Prior to May 1989, funds directed to the plan were used to buy existing shares on a stock exchange.

(c) Holders of Class B shares receive a stock dividend with values substantially equivalent to the cash dividend on Class A shares. During 1990, the stock dividends issued were valued at $1 million (1989 — $1 million; 1988 — $2 million).

Earnings per share are calculated on the monthly weighted average number of shares outstanding during the year (1990 — 190,872,000; 1989 — 179,243,000; 1988 — 163,691,000).

16. INTEREST AND INVESTMENT INCOME

millions of dollars	***1990***	*1989*	*1988*
Interest income	**51**	57	68
Earnings from equity investments (a)	**21**	40	32
Total interest and investment income	**72**	97	100
Dividends received from equity investments	21	31	23

(a) In 1990, Imperial sold its 22.8% interest in Interhome Energy Inc.

17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs in 1990 were $91 million (1989 — $71 million; 1988 — $67 million) before investment tax credits earned on these expenditures of $13 million (1989 — $13 million; 1988 — $13 million). The net costs are included in expenses.

18. TRANSACTIONS WITH EXXON CORPORATION AND AFFILIATED COMPANIES (EXXON)

The amounts paid and received by the company on transactions with Exxon in 1990 were $1,397 million and $427 million respectively (1989 — $748 million and $380 million; 1988 — $599 million and $415 million). The terms of the transactions were as favorable as they would have been with unrelated parties. The transactions primarily were the purchase and sale of crude oil, petroleum and chemical products. Transportation, technical and engineering services were also performed and received. Current amounts due to Exxon at December 31, 1990, were $91 million (1989 — $53 million; 1988 — $6 million).

In 1990, Exxon acquired 1,434,030 shares as part of the share issues described in note 15 (1989 — 18,152,352 shares; 1988 — nil shares). These shares were acquired at the same prices as shares issued to other shareholders. Exxon's ownership interest in Imperial Oil Limited at December 31, 1990 was 69.6 percent, unchanged from December 31, 1989.

19. UNITED STATES ACCOUNTING PRINCIPLES AND INTERNATIONAL ACCOUNTING STANDARDS

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and conform in all significant respects to International Accounting Standards. A description of the differences between the generally accepted accounting principles in Canada and those accepted in the United States as they apply to the company appears on pages 44 and 45.

SUPPLEMENTAL INFORMATION

Additional information for security holders is provided on pages 41 to 45. Since the company uses capital markets in the United States, these pages include information that conforms with the financial reporting practices of that country.

OIL AND GAS PRODUCING ACTIVITIES

The information on pages 41 to 43 is provided in accordance with the United States' Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities." This statement requires specific disclosure about oil and gas activities only; accordingly, the data exclude information about coal and mineral activities reported in the natural resources segment.

CAPITALIZED COSTS (2)

millions of dollars	Oil and gas 1990	Oil and gas 1989	Syncrude 1990	Syncrude 1989	Total 1990	Total 1989
Property cost (1)						
Proved	3241	3257	—	—	3241	3257
Unproved	302	405	—	—	302	405
Producing assets	5331	5157	843	844	6174	6001
Support facilities	135	178	28	29	163	207
Incomplete construction	129	385	68	34	197	419
Total capitalized costs	9138	9382	939	907	10077	10289
Accumulated depreciation and depletion	2366	1971	194	173	2560	2144
Net capitalized costs	6772	7411	745	734	7517	8145

COSTS INCURRED (2)

millions of dollars	Oil and gas 1990	Oil and gas 1989	Oil and gas 1988	Syncrude 1990	Syncrude 1989	Syncrude 1988	Total 1990	Total 1989	Total 1988
Property costs (1)	11	2534	301	—	—	—	11	2534	301
Exploration costs	100	161	106	—	—	—	100	161	106
Development costs	246	1220	623	37	32	54	283	1252	677

RESULTS OF OPERATIONS (2)

millions of dollars	Oil and gas 1990	Oil and gas 1989	Oil and gas 1988	Syncrude 1990	Syncrude 1989	Syncrude 1988	Total 1990	Total 1989	Total 1988
Sales to customers	668	648	459	—	—	—	668	648	459
Intersegment sales	1528	1179	591	376	293	250	1904	1472	841
Total sales (3)	2196	1827	1050	376	293	250	2572	2120	1300
Production expenses	692	628	474	253	241	209	945	869	683
Exploration expenses (4)	256	149	112	—	—	—	256	149	112
Depreciation and depletion (5)	384	469	218	26	24	23	410	493	241
Income taxes	373	275	92	29	6	—	402	281	92
Results of operations	491	306	154	68	22	18	559	328	172

(1) "Property costs" are payments for rights to explore for petroleum and natural gas. "Proved" represents areas where successful drilling has delineated a field capable of production. "Unproved" represents all other areas. "Incomplete construction" includes drilling and other costs relating to the discovery of commercial oil and gas reserves in the Beaufort Sea/Mackenzie Delta region.

(2) The data reflect the purchase of Texaco Canada on February 23, 1989 and its financial results since that date.

(3) Sales of crude oil to consolidated affiliates are at market value, using posted field prices. The value of sales of natural-gas liquids to consolidated affiliates are at prices estimated to be obtainable in a competitive, arm's-length transaction. Total sales exclude the sale of natural gas and natural-gas liquids purchased for resale.

(4) Includes $141 million offshore Beaufort write-off.

(5) Net of $118 million gain from divestments.

SUPPLEMENTAL INFORMATION

NET PROVED RESERVES OF CRUDE OIL AND NATURAL GAS (1)

	Crude Oil				Natural Gas
millions of barrels	*Conventional*	*Cold Lake*	*Syncrude*	*Total*	*billions of cubic feet*
Net proved developed and undeveloped					
Beginning of year 1988	500	772	217	1489	1914
Revisions of previous estimates and improved recovery	9	89	35	133	130
Purchase of reserves in place	6	—	—	6	526
Discoveries and extensions	1	—	92	93	17
Production	(43)	(33)	(14)	(90)	(109)
End of year 1988	473	828	330	1631	2478
Revisions of previous estimates and improved recovery	58	(2)	(1)	55	452
Purchase of reserves in place	299	—	—	299	1464
Discoveries and extensions	21	—	—	21	58
Production	(67)	(31)	(14)	(112)	(194)
End of year 1989	784	795	315	1894	4258
Revisions of previous estimates and improved recovery	**(14)**	**2**	**(4)**	**(16)**	**(197)**
Sale of reserves in place	**(30)**	**—**	**—**	**(30)**	**(173)**
Discoveries and extensions	**4**	**—**	**—**	**4**	**135**
Production	**(64)**	**(31)**	**(14)**	**(109)**	**(196)**
End of year 1990	**680**	**766**	**297**	**1743**	**3827**
Net proved developed					
End of year 1987	477	253	193	923	1564
End of year 1988	431	281	330	1042	2199
End of year 1989	724	248	315	1287	3685
End of year 1990	**634**	**209**	**297**	**1140**	**3344**

GROSS PROVED RESERVES (1)

	Crude Oil				Natural Gas
millions of barrels	*Conventional*	*Cold Lake*	*Syncrude*	*Total*	*billions of cubic feet*
End of year 1987	609	947	340	1896	2543
End of year 1988	567	910	472	1949	3113
End of year 1989	930	876	458	2264	5087
End of year 1990	**855**	**847**	**439**	**2141**	**4730**

(1) Gross reserves are the company's share of reserves before deducting the shares of mineral owners or governments or both. Net reserves exclude these shares.

All reported reserves of crude oil and natural gas are located in Canada. Reserves of crude oil include condensate and natural-gas liquids. Conventional and Cold Lake crude-oil and natural-gas reserve estimates are based on geological and engineering data, which have demonstrated with reasonable certainty that these reserves are recoverable in future years from known reservoirs under economic and operating conditions existing at December 31 of the year. Reserves of crude oil at Cold Lake are those estimated to be recoverable from the existing experimental pilot plants and phases one to ten of the Cold Lake production project.

The calculation of reserves of crude oil at Syncrude is based on the company's participating interest in the production permit granted in October 1979 and as amended in January 1985 and July 1988 by the province of Alberta.

Net proved reserves are determined by deducting the estimated future share of mineral owners or governments or both. For conventional crude oil (excluding enhanced oil recovery projects), oil from the Cold Lake pilots and natural gas, net proved reserves are based on estimated future royalty rates representative of those existing at December 31 of the year. Actual future royalty rates may vary with production and

price. For enhanced oil recovery projects, Syncrude and phases one to ten of the Cold Lake production project, net proved reserves are based on the company's best estimate of average royalty rates over the life of each project. Actual future royalty rates may vary with production, price and costs.

Reserve data do not include crude oil and natural gas discovered in the Beaufort Sea/Mackenzie Delta and the Arctic Islands or the reserves contained in oil sands other than those attributable to Syncrude, the Cold Lake pilot area and phases one to ten of the Cold Lake production project.

Net proved reserves of crude oil and natural gas decreased by 151 million barrels and 431 billion cubic feet respectively. Production in 1990 totaled 109 million barrels of crude oil and 196 billion cubic feet of natural gas or about half of the total 1990 reserves decrease in oil equivalent barrels. Sales of reserves accounted for an additional 30 million barrels of crude oil and 173 billion cubic feet of natural gas reserves decrease. Revisions to previous estimates due to technical analysis and accounting adjustments accounted for the other significant change to the reserves base. While exploration continued to provide significant additions to conventional oil and gas reserves, they were not sufficient to offset the effects of divestments and production.

Natural-gas reserves are calculated at a pressure of 14.73 pounds per square inch at 60 degrees Fahrenheit.

Present Value of Estimated Future Net Cash Flows

millions of dollars	*1990*	*1989*	*1988*
Future cash flows	**37 337**	32 776	18 221
Future production and development costs	**(15 555)**	(14 893)	(12 409)
Future income taxes	**(9 156)**	(6 758)	(1 988)
Future net cash flows	**12 626**	11 125	3 824
Annual discount of 10 percent for estimated timing of cash flows	**(6 817)**	(5 967)	(2 222)
Discounted future net cash flows	**5 809**	5 158	1 602

Summary of Changes in Present Value of Estimated Net Cash Flows

millions of dollars	*1990*	*1989*	*1988*
Balance at beginning of year	**5 158**	1 602	1 884
Changes resulting from:			
Sales and transfers of oil and gas produced, net of production costs	**(1 930)**	(1 027)	(643)
Net changes in prices, development costs and production costs	**3 741**	3 686	(1 755)
Extensions, discoveries, additions and improved recovery, less related costs	**27**	95	198
Purchase (sale) of reserves in place	**(558)**	2 560	—
Development costs incurred during the year	**203**	208	485
Revisions of previous quantity estimates	**(421)**	133	176
Accretion of discount	**767**	226	361
Net change in income taxes	**(1 178)**	(2 325)	896
Net change	**651**	3 556	(282)
Balance at end of year	**5 809**	5 158	1 602

The schedules above are calculated using year-end prices, costs, statutory tax rates and existing proved oil and natural-gas reserves. The value of exploration properties and probable reserves, future exploration costs and the company's interest in Syncrude are excluded, as are future changes in oil and gas prices and in production and development costs.

The company does not agree that these calculations necessarily represent an accurate estimate of the fair market value of the company's crude-oil and gas properties or of their future cash flows. In the company's opinion, the method of calculating the data is not reliable and the values may not provide a basis for meaningful analysis. Imperial cautions readers about its use.

SUPPLEMENTAL INFORMATION

PRESENTATION OF FINANCIAL STATEMENTS

The financial statements of the company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. These principles conform in all material respects to those in the United States except for the following.

millions of dollars	*1990*	*1989*	*1988*	*1987*	*1986*
Net earnings as shown in financial statements	493	456	501	746	285
Impact of U.S. accounting principles:					
Capitalized interest (1)	(4)	(4)	(5)	(5)	(4)
Foreign exchange (2)	(2)	25	14	11	33
Pensions—discount rate (6)	20	22	16	8	—
Pensions — workforce reduction programs (7)	16	—	—	—	—
Deferred income taxes (5)	68	(84)	—	—	—
Subtotal (4)	591	415	526	760	314
Adjustments for amounts restated under Canadian GAAP (3)	—	—	—	(1)	—
Cumulative effect for:					
Deferred income taxes (5)	—	219	—	—	—
Other post-employment benefits (3)	—	(46)	—	—	—
Inventory (3)	—	—	—	—	(3)
Net earnings under U.S. GAAP	591	588	526	759	311
Net earnings per share (dollars)					
Under accounting principles of:					
Canada	2.58	2.54	3.06	4.55	1.74
United States	3.10	3.28	3.21	4.64	1.90
United States — after retroactive application (4)	3.10	2.32	3.21	4.64	1.92

(1) Interest expense related to major construction projects is not required to be capitalized in Canada, as it is in the United States.

(2) Long-term liabilities in foreign currencies have been translated at the rates of exchange prevailing on December 31. Exchange gains and losses arising on translation of long-term debt are amortized over the remaining term of the debt. In the United States the practice is to include the gains and losses arising from this translation in earnings for the period in which they arise.

(3) In 1989, the company changed its method of accounting for "other post-employment benefits" to include an annual charge to earnings for these benefits with respect to employees' service for the year. In 1986, the company changed its method of accounting for inventories of crude oil at refineries and products from the first-in, first-out (FIFO) to the average-cost method.

Under Canadian GAAP, a change in accounting principle is to be applied retroactively and data of prior years are to be restated. This resulted in a restatement of earnings of $1 million with respect to "other post-employment benefits" in 1987.

In the United States, the retroactive restatement of earnings is not allowed, and the cumulative effect on prior years' earnings of the accounting-principle change is to be included in net income for the year. The above table reverses the impact of the restatements and shows the cumulative effect on prior years' earnings in the year that the accounting principle was adopted.

(4) This is the pro forma effect of the changes in accounting principles described in (3) as if those changes had been applied retroactively.

(5) Effective January 1, 1989, the company adopted Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes", for reporting under U.S. GAAP. This requires the calculation of deferred income-tax balances on the book versus tax value of assets and liabilities, using enacted income-tax rates and legislation. The impact on the company's earnings is described in the schedule. On the balance sheet, deferred income taxes would be $1,445 million higher at December 31, 1990 than reported under Canadian GAAP (1989 — $1,774 million). This would primarily be offset by an increase in property, plant and equipment.

(6) The determination of pension expense and obligation under SFAS No. 87, "Employers' Accounting for Pensions", requires the use of a prescribed year-end settlement rate for discounting purposes. This rate was 10.5 percent at December 31, 1990 (1989 — 10 percent; 1988 — 10.5 percent). The discount rate under Canadian GAAP is deemed to be equal to the future return on plan assets and was estimated to be 8.5 percent for each of the past three years. Because of these differences, the company's earnings under U.S. GAAP would be higher, as noted in the schedule. As well, the projected benefit obligation would be approximately $450 million lower at December 31, 1990, than reported under Canadian GAAP (1989 — $320 million).

Additional disclosure required under SFAS No. 87

millions of dollars	*1990*	*1989*	*1988*
Pension expense before 1990 workforce reduction program			
Current service cost	61	52	41
Interest cost	175	160	135
Actual return on plan assets	(11)	(236)	(134)
Net amortization and deferral	(131)	113	36
Pension expense	94	89	78
Funded retirement plans			
— projected benefit obligation	2047	1655	
— vested benefit obligation	1570	1301	
Unrecorded obligations			
Unrecorded net obligation at January 1, 1986	3	4	
Unrecorded benefits earned in prior years	168	175	
Unrecorded net (gain) or loss	105	(84)	
Total unrecorded obligations	276	95	
Additional liability regarding unfunded benefits (included in total unrecorded obligations above)	80	83	

(7) SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", requires the recognition of the portion of unrecognized prior service costs related to those involved in the workforce reduction program. Canadian GAAP additionally requires the recognition of any other unrecognized amounts related to those involved in the workforce reduction program. Because of this difference, the company's earnings under U.S. GAAP would be higher as noted in the table.

Other

(i) Under U.S. GAAP, the 1986 loss on retirement of debentures of $75 million would be reported net of income tax credits of $10 million.

(ii) SFAS No. 95, "Statement of Cash Flows", requires that in a cash flow statement;

(a) Exploration expenses be included in operating activities,

(b) Dividends paid be included in financing activities;

(c) The portions of acquisitions that were paid for by issuance of shares or debt be excluded from both investing and financing activities. In 1989, $79 million of the Texaco Canada acquisition was paid for by the issuance of Imperial's common stock. In 1988, $34 million and in 1987, $216 million of debt was issued to sellers in other acquisitions.

While these items would not affect the increase or decrease in cash on the consolidated statement of cash flows, they would have an impact on the individual captions for operating, investing and financing activities.

There were no short-term investments with maturities of greater than three months made during 1990 (1989 — nil; 1988 — nil). There were no short-term borrowings with a maturity of greater than three months made during 1990 (1989 — $863 million; 1988 — nil). These include amounts reinvested or borrowed on the maturity of other investments or borrowings.

SIGNIFICANT SUBSIDIARIES AT DECEMBER 31, 1990 (a)

Atlas Supply Company of Canada Limited
Beaverhill Resources Limited
Byron Creek Collieries (1983) Limited
Cascade Fertilizers (1990) Limited
Chinchaga Resources Limited
Devon Estates Limited
Esso Chemical Alberta Limited
Esso Resources Canada Limited
Esso Resources (1989) Ltd.
Esso Resources Enterprises Ltd.
Esso Resources N.W.T. Limited
Esso Resources Ventures Limited
The Imperial Pipe Line Company, Limited
Maple Leaf Petroleum Limited
McColl-Frontenac Inc.
Metro Fuel Co. Ltd.
Mr. Lube Canada Inc.
Taglu Enterprises Limited
Winnipeg Pipe Line Company Limited
160440 Canada Limited
165899 Canada Limited
173150 Canada Limited
923726 Canada Limited

(a) See page 32, Principles of consolidation.

In addition, the company operates a large part of its business under the business names of Esso Resources Canada and Imperial Oil.

Share Ownership, Trading and Performance

millions of dollars	*1990*	*1989*	*1988*	*1987*	*1986*
Share ownership, Class A and B					
Average number outstanding, weighted monthly (thousands)	190 872	179 243	163 691	163 664	163 611
Number of shares outstanding at December 31 (thousands)	191 754	189 694	163 703	163 674	163 646
Shares held in Canada at December 31 (percent)	22.6	22.6	21.7	21.0	22.5
Total number of shareholders at December 31 (1)	22 908	24 344	24 953	26 118	31 164
Number of shareholders registered in Canada	19 903	21 172	21 730	22 805	27 485
Shares traded, Class A (thousands)	37 154	38 033	31 161	41 957	38 899
Share prices, Class A (dollars)					
High	67 5/8	64 1/8	63 1/2	81 1/2	51 7/8
Low	53 1/4	48 5/8	45	48 1/4	34 3/4
Close at December 31	58 5/8	64	50	55 5/8	51 1/4
Earnings per share (dollars)	2.58	2.54	3.06	4.55	1.74
Price/earnings ratio, Class A at December 31	22.7	25.2	16.3	12.2	29.5
Dividends					
Total (millions of dollars) (2)	344	322	295	270	262
Per share (dollars) (2)	1.80	1.80	1.80	1.65	1.60

(1) Imperial is an affiliate of Exxon Corporation, which owns 69.6 percent of the company's shares.

(2) The fourth-quarter dividend has been paid on January 1 of the succeeding year.

Shareholder Profile

		Registered (percent)		
	Shareholders of record at December 31, 1990	*Canada*	*Other countries*	*Total*
Class A	22 614	87.1	12.9	100.0
Class B	294	71.8	28.2	100.0

QUARTERLY FINANCIAL AND STOCK-TRADING DATA

	1990				1989			
	three months ended				*three months ended*			
	Mar. 31	*June 30*	*Sept. 30*	*Dec. 31*	*Mar. 31*	*June 30*	*Sept. 30*	*Dec. 31*
Financial data (millions of dollars)								
Total revenues	2 588	2 662	2 787	3 261	1 978	2 684	2 673	2 769
Total expenses	2 442	2 603	2 431	2 792	1 805	2 492	2 485	2 641
Unusual items	110	253	16	(589)	—	26	3	(7)
Earnings before income taxes	256	312	372	(120)	173	218	191	121
Income taxes	106	74	178	(31)	60	74	79	34
Net earnings	150	238	194	(89)	113	144	112	87
Segmented earnings								
Natural resources	159	39	146	104	58	119	61	101
Petroleum products	44	16	99	63	57	79	95	26
Chemicals	1	14	—	13	32	40	3	5
Corporate and other	(54)	169	(51)	(269)	(34)	(94)	(47)	(45)
Net earnings	150	238	194	(89)	113	144	112	87
Debt outstanding	4 037	3 455	3 176	2 827	5 540	4 638	4 311	3 948
Per-share information (dollars) (1)								
Net earnings	0.79	1.25	1.01	(0.46)	0.68	0.84	0.59	0.46
Dividends (declared quarterly)	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45
Share prices (dollars) (2,3)								
Toronto Stock Exchange								
High	65 1/4	62 5/8	67 5/8	65 7/8	55 1/2	58	60 3/8	64 1/8
Low	58 1/8	54	53 1/4	57 1/4	48 5/8	52	54 5/8	58 3/8
Close	61 3/8	54 5/8	66 3/8	58 5/8	53 3/4	56 3/8	60	64
American Stock Exchange ($U.S.)								
High	56	53 5/8	59 5/8	57	46 1/2	48 1/2	51	55 3/8
Low	49	45 7/8	46	49 1/4	40 5/8	43 5/8	46 1/2	50 1/8
Close	52 1/2	47	57 1/4	50 5/8	44 7/8	47 1/8	50 1/2	55 1/8
Shares traded (thousands) (3)	7 261	10 224	11 734	7 935	12 473	9 342	8 475	7 743

(1) The average number of outstanding shares included in the calculation of earnings per share is weighted on a monthly basis. As a result, the sum of the quarterly earnings per share does not necessarily equal the yearly earnings per share.

(2) Share prices were obtained from stock-exchange records. The number of shares traded is based on transactions on all the above stock exchanges. Class B shares generally trade at the same price as Class A shares.

(3) Imperial's shares are listed on the Montreal, Toronto and Vancouver stock exchanges and are admitted to unlisted trading on the American Stock Exchange in New York. The symbol on these exchanges for Imperial's Class A shares is IMO.A and for its Class B shares, IMO.B. The high and low prices for Class A shares are based on trading on the Toronto Stock Exchange and the American Stock Exchange.

INFORMATION FOR SHAREHOLDERS AND INVESTORS

OUR SERVICES TO SHAREHOLDERS

Imperial strives to provide its shareholders and interested investors with a variety of services and informative publications. We have dedicated staff to respond to shareholders' information needs and requests for assistance with estate settlements, share transfers and dividend cheques.

FOR MORE INFORMATION

The annual and interim reports are important sources of information for shareholders, and we can provide further information on request:

- "Information for Investors" — a fact book that describes the company and its operations in detail. It also includes the most current financial information and executive speeches.
- Form 10-K filed with the United States Securities and Exchange Commission, which includes additional information on the company's operating performance and projects.
- "4IS — Imperial's Investor Instant Information Service," which can provide on-line information to those with access to a computer.

For information about publications, shares, dividends or other matters, please contact the investor relations manager at the company's head office:

Imperial Oil Limited
111 St. Clair Avenue West
Toronto, Canada M5W 1K3
Telephone: (416) 968-5076
Fax: (416) 968-4272

If you wish access to the computer-based information service, please call the investor communications administrator at (416) 968-8145.

THE ANNUAL MEETING

The annual and special meetings of shareholders will be held in the Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, Canada on Monday, April 22, 1991, at 11 a.m. local time.

HOW TO TRANSFER SHARES

To transfer Imperial Oil shares, contact the head office of Imperial Oil or the principal offices of our transfer agents, Montreal Trust Company in St. John's, Charlottetown, Halifax, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, and American Transtech Inc., Wall, New Jersey.

IF YOU MOVE

Please notify the company's investor relations manager in writing if you have changed your address and mail the notification to Imperial's head office.

TO INCREASE YOUR SHAREHOLDINGS

The dividend reinvestment and share purchase plan provides shareholders with two ways to add to their shareholdings at low cost. The plan enables shareholders to reinvest their cash dividends in additional shares at five percent less than an average market price. Shareholders can also invest between $50 and $5,000 per calendar quarter in additional shares at an average market price without paying brokerage or other fees.

DIVIDEND PAYMENTS

Imperial has a long record of paying regular dividends to shareholders. The registered owner of the shares on the record date is paid the dividend, and record dates normally fall in the last month of each calendar quarter — that is March, June, September and December. The dividend payment date is normally the first day of April, July, October and January of the following year. For the first quarter of 1991 the record date is March 4, and the payment date is April 1.

INFORMATION FOR SECURITY HOLDERS OUTSIDE CANADA

Cash dividends paid to shareholders resident in countries with which Canada has an income-tax convention are usually subject to Canadian nonresident withholding tax of 15 percent. The withholding tax is reduced to 10 percent on dividends paid to a resident of the United States who owns at least 10 percent of the voting shares of the corporation. Class B stock dividends paid to nonresident holders of Class B shares are subject to the same Canadian nonresident withholding tax as cash dividends.

There is no Canadian tax on gains from selling shares or debt instruments owned by nonresidents not carrying on business in Canada.

Interest paid to nonresidents who are dealing at arm's length with the company, on debt obligations issued after June 23, 1975, is not subject to withholding tax if the debt obligation is issued for a period of at least five years. Interest paid to nonresidents on debt obligations issued before June 24, 1975, is generally subject to withholding tax. The withholding rate is 25 percent, reduced to 15 percent if the recipient is a resident of the United States or another country with which Canada has an income-tax convention.

No estate taxes or succession duties are imposed by the government of Canada or provincial governments.

VERSION FRANÇAISE DU RAPPORT

Pour obtenir la version française du rapport de la Compagnie Pétrolière Impériale Ltée, veuillez écrire à la division des Relations avec les investisseurs, Compagnie Pétrolière Impériale Ltée, 111 St. Clair Avenue West, Toronto, Canada M5W 1K3.

Senior Management

A.R. Haynes
Chairman
and chief executive officer

R.B. Peterson
President and
chief operating officer

R.A. Brenneman
Senior vice-president and
chief financial officer

D.D. Baldwin
President and chief executive officer,
Esso Resources Canada Limited

B.J. Fischer
President, Esso Chemical Canada;
vice-president, Imperial Oil Limited

W.R.K. Innes
President, Esso Petroleum Canada;
vice-president, Imperial Oil Limited

Corporate Management

P.J. Dingle
Vice-president, corporate planning

R.E. Landry
Vice-president — Ottawa

P.J. Levins
Vice-president, human resources

J.D. McFarland
Vice-president, environment

R.J. Michaelides
Vice-president, corporate relations
and general secretary

G.L. Munro
Vice-president, information management

G. Nuttall
Vice-president, executive
development and organization

A.L. Peterson
Vice-president, general services

C.C. Tatkon
Vice-president and treasurer

R.C. Walker
Vice-president and general counsel

A.B. Waugh
Vice-president, tax

W.D. West
Vice-president and comptroller

Imperial continues to make a significant contribution to Canada's economy and to its communities, in keeping with its vision to be a premier corporation. For 111 years, the company has developed this country's key petroleum resources responsibly and efficiently, in every part of the country.

In the past decade, Imperial has sustained a distinguished record of growth, contrary to the trend of much of the industry. Since the early 1980s reserves of crude oil have doubled and production has more than doubled. Since mid-decade, natural-gas production has quadrupled, refining and sales volumes have grown by half, and sales of petrochemicals have grown by two-thirds.

Excellence is the hallmark of Imperial's every endeavor, from protecting the environment, to providing quality and value in products and services, to enhancing quality of life through contributing to education, health, welfare, community services, culture and sport.

More than ever, environmental concerns are a major consideration in the way Imperial does business. Company policy requires that its activities be conducted with minimum environmental disruption and that regulations be exceeded whenever the benefits to society justify the cost and our ability to compete is not weakened. In 1990 Imperial spent about $70 million on facilities and equipment to protect the environment.

The company is committed to being a leading corporate citizen that recognizes that social responsibility and business responsibility are inseparable. In 1990 Imperial donated more than $10 million to worthwhile causes. As well, it initiated a Volunteer Involvement Program to support community service undertaken by its employees and annuitants.

Imperial maintains the highest standards of integrity in all its business practices. It has had a written code of ethics for more than 20 years and reviews its ethical practices on a regular basis.

To maximize the benefit of its activities to Canada's economy, the company pursues an active program to identify and support Canadian suppliers. In 1990 more than 80 percent of the goods and services it purchased came from Canadian sources.

This report is printed on 100-percent recycled paper and has been printed and bound in a way that facilitates recycling.

A Caring Company
IMAGINE

Imperial has been designated a "caring company" by the "Imagine" campaign.

Design: Bryan Mills & Associates Ltd.
Illustrations: cover and portraits, Laurie McGaw;
operating scenes and products, Ric Riordon
Typesetting: Imperial Oil Limited
Color separation: Colourgraph Reproduction Systems Inc.
Printing: Provincial Graphics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